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Author:

Bennett, Robert Joseph

Title:

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practice**

Place:

Philadelphia

Date:

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Lessons 1 and 2.

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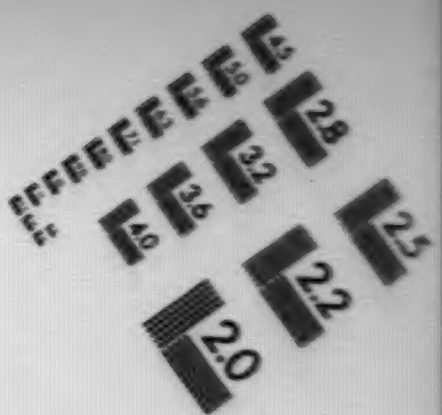
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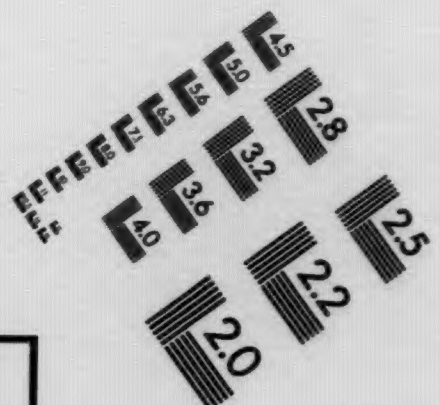


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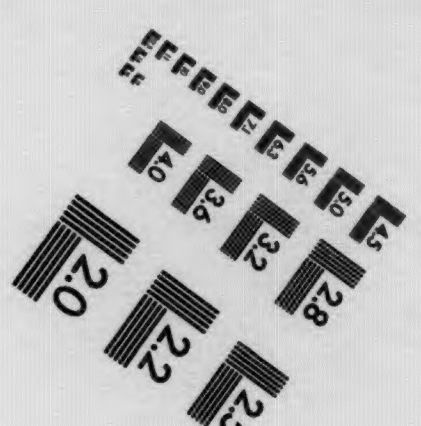
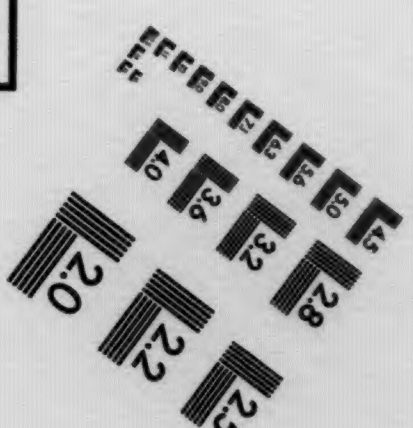
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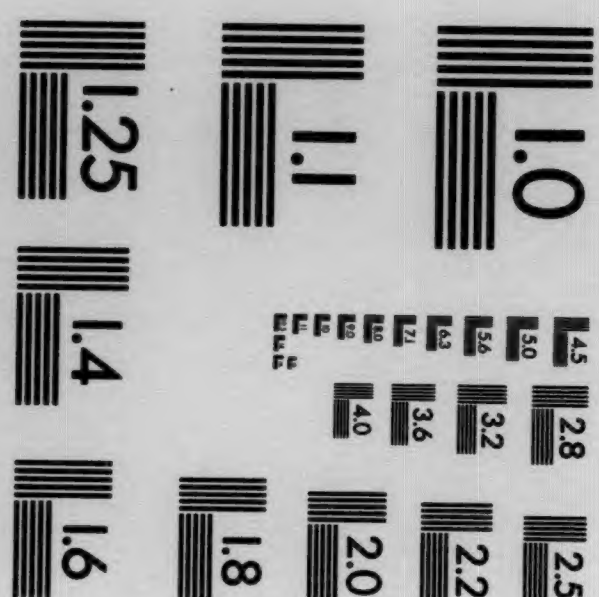
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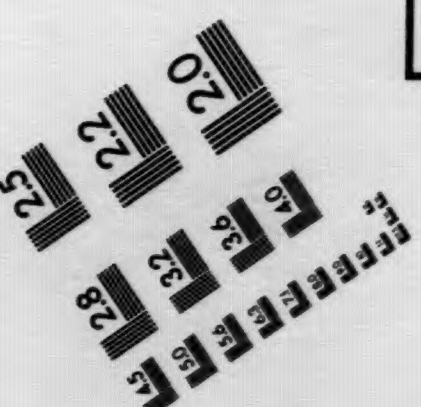
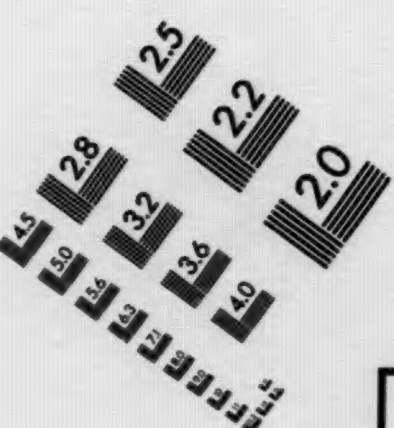
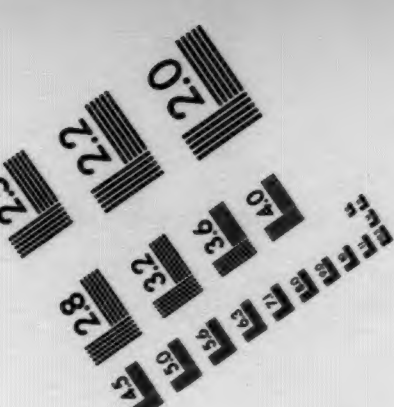
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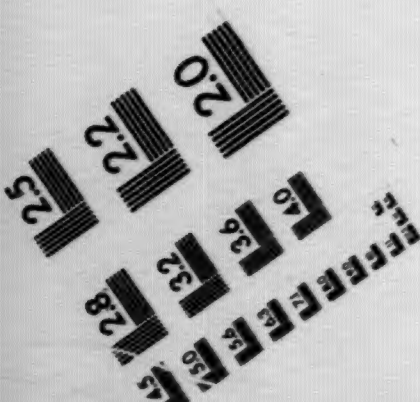
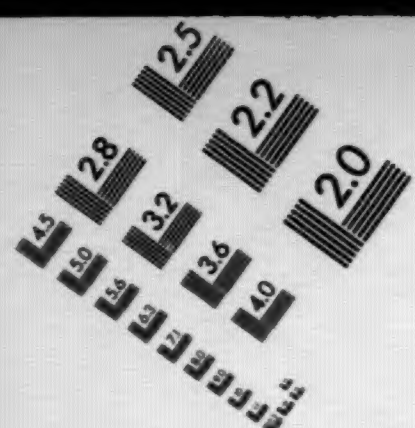
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Cap. 1

ACCOUNTANCY

SPECIAL COURSE IN

ACCOUNTING, THEORY AND PRACTICE

DESIGNED TO PREPARE CANDIDATES
FOR EXAMINATIONS FOR CERTIFIED
PUBLIC ACCOUNTANTS, AND FOR WORK
AS ACCOUNTANTS AND AUDITORS



THEORY, PRINCIPLES AND PRACTICE, SPECIAL LEDGERS
AND CONTROLLING ACCOUNTS

BY

R. J. Bennett, C. A., C. P. A.

Lessons 1 and 2

BENNETT ACCOUNTANCY INSTITUTE
PHILADELPHIA, PA.

D410--B4395

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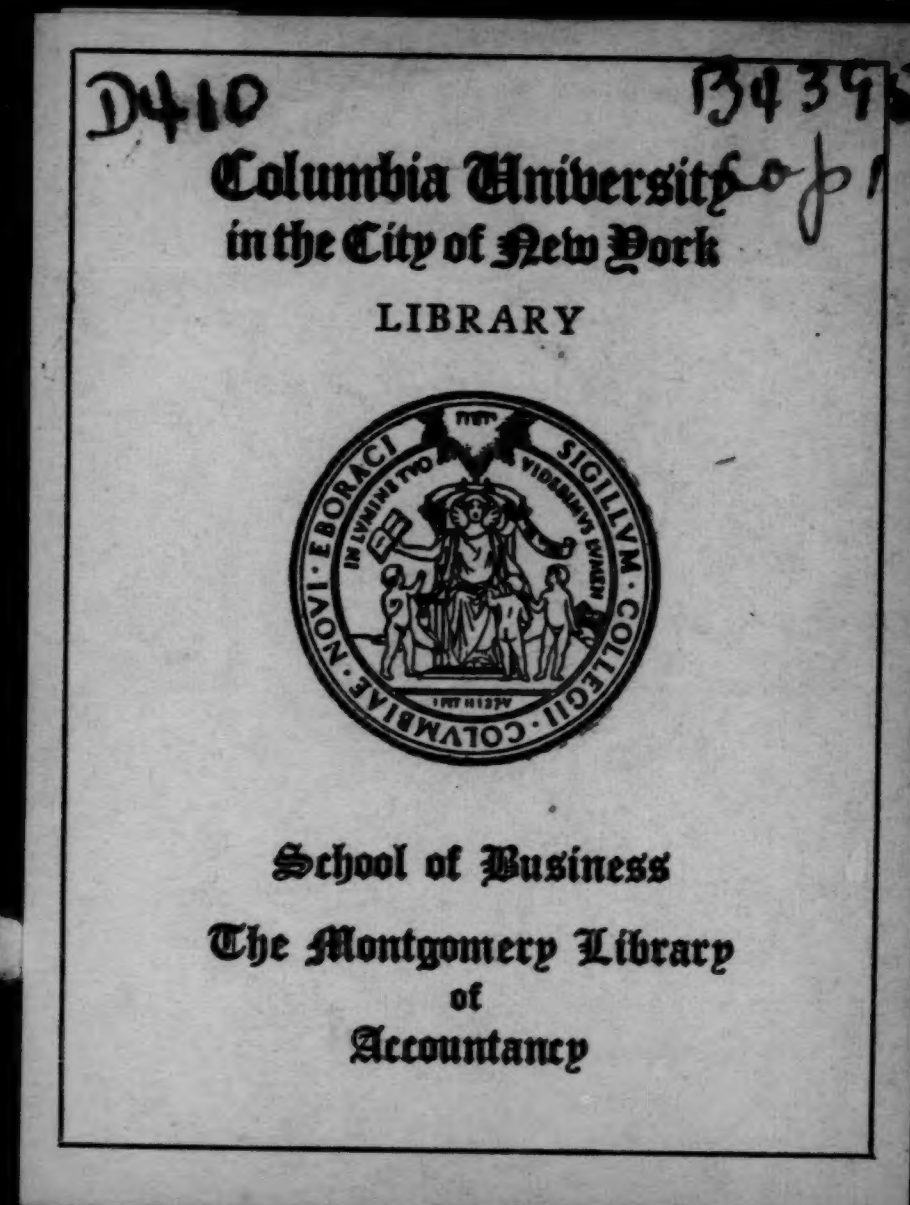
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THEORY, PRINCIPLES AND PRACTICE, SPECIAL LEDGERS AND CONTROLLING ACCOUNTS

BY

R. J. Bennett, C. P. A.

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THEORY, PRINCIPLES AND PRACTICE,
SPECIAL LEDGERS
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R. J. Bennett, C. P. A.

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LESSONS 1 AND 2

ACCOUNTANCY

THEORY, PRINCIPLES AND PRACTICE OF ACCOUNTING

While a knowledge of theoretical and practical bookkeeping is presupposed on the part of students taking up this accountancy course, we deem it advisable at this time to give a few explanations and definitions of terms in common use.

Bookkeeping is the recording of business transactions in a regular and systematic manner. It is not sufficient that the entries be made in a haphazard manner. They should be clear and accurate in order to be intelligible, not only at the present time but at a later date, to any one who may have occasion to make reference thereto. This is true in all cases, whether the books belong to a small concern or form the complete set of records of a large manufacturing establishment. In any case the records should present a true exhibit of all the business transactions.

Accountancy.—Accountancy, or accounting, is the recording, comparing, classification and scientific analysis of business transactions and accounts. It comprehends the arrangement of accounting systems in such a way as to exhibit the correlated facts, details, results and true conditions of any business and the exhibition thereof in terms that will provide the management with such information as is necessary for successful administration. Accounting includes bookkeeping, auditing, system building, special investigations, just as the term mathematics embraces such subjects as algebra, geometry and arithmetic.

Auditing.—An audit consists of an examination of the accounts, vouchers, records and statements of a business to determine whether or not the books have been kept properly and accurately. Its object is to assure the proprietor that the books are correct, also to prevent or detect errors or defalcations.

Accountant, Auditor, Bookkeeper.—It should be kept in mind that the accountant's work is very different from that of the bookkeeper or of the auditor. The bookkeeper's work (we say it with all respect due to him) is mainly clerical and usually done according to a routine that has been followed for years. He may be thoroughly familiar with the particular books on which he is working, but entirely unable to devise or take charge of a set for another business if they differ to any extent from his own. This is a case wherein the self-satisfied bookkeeper makes no effort to look beyond his own narrow system of debits and credits.

The auditor's duties are to oversee. He is to verify the work of the bookkeeper and to see that the books are kept correctly, also to see that the accounts contain no errors of omission or commission,

nor of a clerical nature; to see that the assets, liabilities and capital as set forth in the balance sheet are correctly stated, and that the income and expenditures are correct and according to the books.

The accountant's work is different from either of the above—it is creative, analytical and exhaustive. He must be able to devise systems of record and account that will give the greatest amount of detailed information regarding any particular business that he is called upon to systematize, with the smallest possible expenditure of labor and time. He must necessarily be a man of brains and quick to apprehend. His varied career and diversified work necessitate ability, foresight, persistence and patience. Indeed, the work of the accountant brings him in touch with all lines of business activity and he, therefore, must necessarily have a clear knowledge of business, finance, banking and manufacturing. It is not sufficient that he should know something of a manufacturing establishment and its accounting system, but he should be familiar with the nature of the work done therein and the processes through which the article must go before it becomes the finished product. The broader his general knowledge the more successful will he be as an accountant and system builder. While some accountants specialize in certain lines such as factory systems, banking, transportation, etc., the majority of accountants prefer to accept appointments in any line of activity, thus necessitating a broad knowledge of affairs. He is frequently called upon to make audits and to conduct special examinations for the purpose of detecting alleged fraud, or to make reports to intending purchasers, etc. All this goes to show how broad and far-reaching the accounting profession is.

We may liken the accountant, bookkeeper and auditor unto the doctor, the patient and the nurse. The accountant (doctor) arranges the books and prescribes what is to be done, the bookkeeper (patient) follows the prescription, keeping the records, while the auditor (nurse) sees that those records are kept correctly and that the accountant's orders are carried out. If the orders are not carried out, it may be necessary to consult the accountant again. The accountant must necessarily have been a bookkeeper, and usually is an auditor as well; but the auditor is not always an accountant. This may be due to the fact that the office he fills requires special duties only for which he is qualified, or that he has secured the appointment through influence or favoritism. It is often true, and we are sorry to say it, that the so-called auditor knows absolutely nothing of the duties to be performed in his office, to say nothing of the liability of fraud, collusion and chicanery that may be practiced right under his nose, owing to the fact that he received the appointment through influence and not because of his fitness for the place.

Accounts Classified.—The accounts of any business are divided into two general classes known as **Real Accounts** and **Nominal Accounts**. The Real accounts are those that represent Assets (Resources) and Liabilities, such as Personal accounts, Property accounts, Securities, and written obligations receivable and payable. The Nominal accounts are those which represent Gains and Losses (In-

come and Expenses) of a business, as Sales and other income, Salaries, Expenses, Rents, Interest, etc. All accounts belonging to this class are closed at stated periods into the Profit and Loss Account. Some accountants make three divisions of accounts, consisting of Capital accounts, Real accounts, and Nominal accounts, on the ground that the Capital accounts do not constitute a liability and that they represent only the proprietary interest in the business.

While it is true that the terms "Real" and "Nominal" do not seem clear as to meaning, yet they are quite generally in use and therefore considered authoritative. The Real accounts are known also as the Balance Sheet Accounts or Financial accounts; while the Nominal accounts are known as the Business or Revenue accounts, and as the Profit and Loss accounts.

Business transactions that affect Nominal accounts, such as the sale of goods or payment of rent, produce either a profit or a loss, and thereby indirectly cause a corresponding increase or decrease in capital. Entries affecting only the Real accounts (for instance the payment of a note or a debt) do not change the revenue or capital in any way. The payment of a debt by us reduces both assets and liabilities to the same extent, while a payment to us simply changes the nature of an asset by submitting cash for a promise.

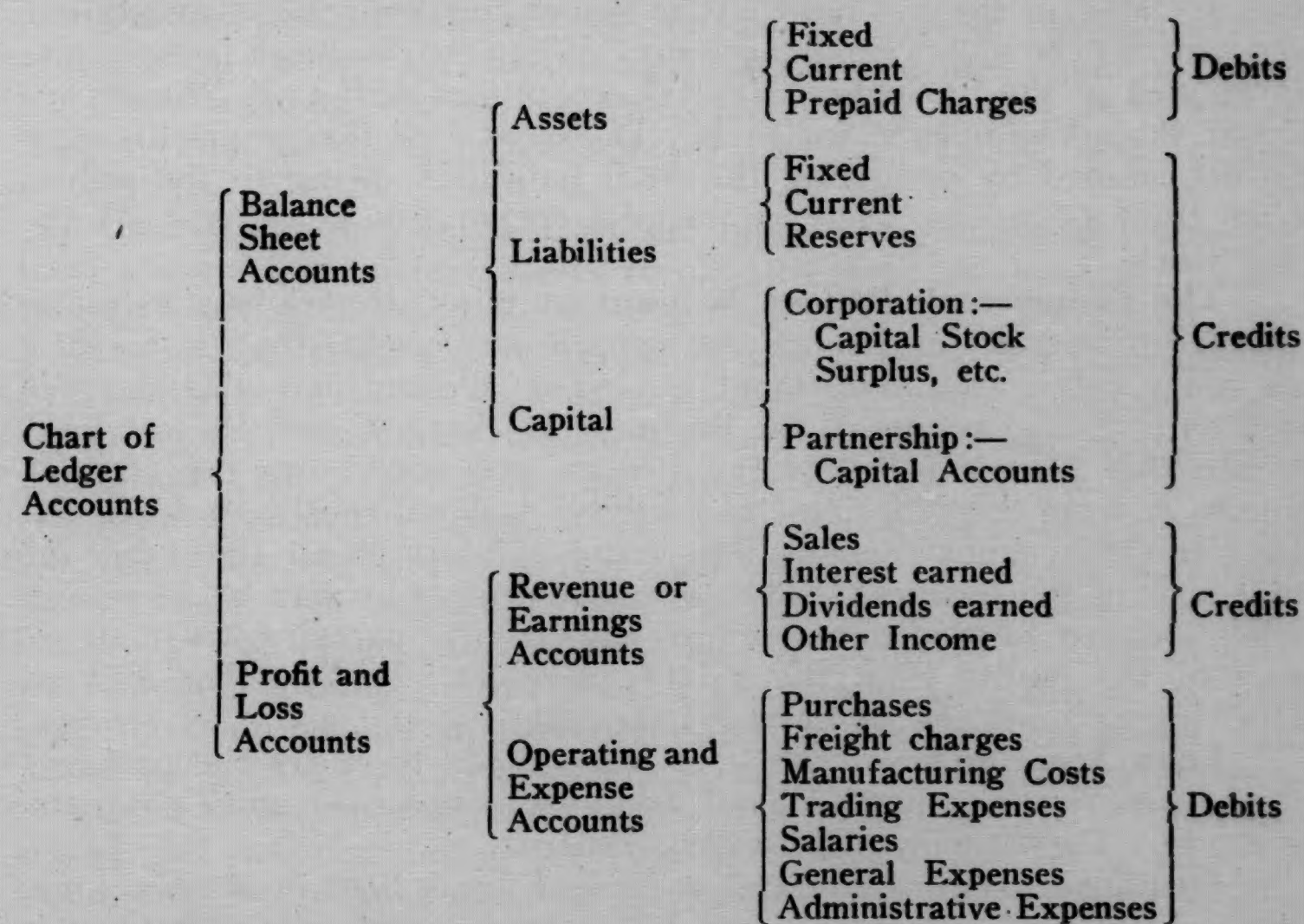


Chart showing the classification of ledger accounts.

An Account is a record of items or transactions, containing the debits and credits arising out of dealings with persons, such as income and expenditure and assets and liabilities. A record or statement of debits and credits, of receipts and expenditures, or of business transac-

tions, etc. All items affecting any particular account are contained under that heading.

Personal Accounts are all accounts with individuals, firms or corporations.

Impersonal Accounts are all accounts other than personal, such as property, income, expenses, etc.

Negative Accounts.—Those that are directly opposite or negative to other accounts. The withdrawals of the proprietor are negative to his capital account, and in like manner returned goods are negative to Sales as they tend to reduce the amount sold. Reserves are negatives to property accounts.

Mutual Accounts are accounts kept between merchants where reciprocal business dealings are carried on. This has reference to cases where two firms are purchasing from and selling to each other.

Current or Running Accounts contain a series of debits and credits and are adjusted or settled at intervals. They are the opposite of transient accounts as they record the continuous dealings of customers with the corresponding credits, etc.

A **Stated Account** is one that has been rendered to a debtor and accepted by him as correct. In other words, the account has been submitted or stated by the person rendering it.

Capital Account represents the net amount that the proprietor has invested in the business. It is sometimes known as Investment account or even as his Stock account. When two or more persons are interested in the business a Capital account as well as a Private account should be opened for each. The capital of the proprietor may be determined by deducting the total liabilities owing to the public from the total assets. The capital of a corporation is known as Capital Stock.

The Proprietor's Private Account contains all withdrawals made by the proprietor, and it may also contain any credits that occur such as salary, interest on investment, etc. This account may also be credited with the net profits of the business, or charged with the net loss. When this plan is followed the Private account shows the amount due to or from the proprietor and subject to his disposition, while the Investment account remains intact and exhibits at all times his investment in the business. The Investment account may be increased when desired by additional investments, or by carrying to it all or part of the profits from the Private account. It is known also as Drawing account and as Personal account.

Loan Account may consist of loans made to or by the business to the proprietor or partner, and usually remains open until payment is made. This applies also to corporations.

Suspense Account contains record of items held in abeyance for the want of further information. For instance, cash received through the mails without containing the name of the sender, would be credited to Suspense account until sufficient information could be obtained for its proper disposition. It is sometimes used for exhibiting doubtful accounts, for over and shortage of cash, etc. In case the cash account is subject to fluctuations by excesses or shortages, such fluct-

uations are adjusted into an account called "Over and Short" or "Excess and Deficiency." All such suspended items not accounted for after a reasonable length of time should be closed off into profit and loss account.

Adjustment Account.—An account used simply as an intermediary through which adjustments are made, as accruals of interest and other items. The Profit and Loss account might even be considered an Adjustment account since it is opened for the purpose of adjusting the Profits and Losses, and after these adjustments are made its function ceases.

"Money is a medium of exchange, a measure of value, and a means of making deferred payments." It may consist of any commodity which can conveniently and satisfactorily serve the purpose. Various commodities have been used to serve as money in the world's history, but it has been found that gold and silver are preëminently appropriate and adapted to the use required of coins. The moneys of the United States now in circulation are Gold Coins (9/10 pure, 1/10 alloy) \$2.50, \$5.00, \$10.00 and \$20.00; Silver Dollars; Subsidiary Silver, 50, 25 and 10 cent pieces; Minor Coins, 5 and 1 cent pieces. Paper moneys are, United States Notes (including some fractional currency), Gold and Silver Certificates, National Bank Notes and Treasury Notes.

Currency has reference to the money which passes current throughout the country, and includes both coin and paper moneys.

Cash includes money, checks, bank drafts, postal and express money orders, etc.; in fact any paper that can readily be converted into money.

Cash Items may include all the items comprehended under the term Cash. The writer prefers to classify these as "so-called cash" though often included in the cash drawer as part of the regular cash balance. They consist of "memo's" of money borrowed from the till by employees, I. O. U.'s of officers, shortage memo's, unpaid sight drafts, etc. The auditor should insist upon such items being converted into cash before giving his certificate.

Cash Account in Ledger.—The cash book is obviously a part of the ledger and therefore the real cash account. The cash book balance is the amount taken into the trial balance to complete the equilibrium of the ledger, and said balance is made up of cash in safe and balance in bank. Sometimes it is thought advisable to keep a separate cash account in the ledger into which shall be posted the weekly or monthly totals of receipts and disbursements. When this is done the account will show at any time the aggregate of cash received and paid out during the year up to any desired date, and the balance of the account must of necessity be the same as that of the cash book itself. The cash account should remain open during the entire year.

Personal Accounts.

Question.—Explain Accounts Receivable, Accounts Payable, Sundry Debtors, Sundry Creditors, Petty Accounts.

Answer. Accounts Receivable.—Accounts due from customers,

debtors, to whom we have sold goods. The aggregate of outstanding accounts receivable standing on the books at any time. These are often, though wrongly, called sundry debtors.

Accounts Payable.—All accounts due to creditors from whom we purchase goods; often, though wrongly, called sundry creditors.

Sundry Debtors.—These include accounts due from debtors other than merchandise customers, as advances to officers and employees on account of salary, expenses in hands of travelers unaccounted for, and other debit accounts not strictly accounts receivable. These should be kept in the concluding part of the general or private ledger, either in separate accounts or in one general account headed "sundry debtors."

Sundry Creditors.—The opposite of sundry debtors. They may include also creditors from whom we purchase various properties other than goods, as furniture, advertising, contracts and expense bills of various kinds. If such are numerous they may have a separate ledger, but since they are usually only temporary they should be handled as explained under sundry debtors. Sometimes, however, they are not entered on the books until paid for in cash.

Handling Mutual Accounts.

Question.—In case you purchase goods from a firm and sell to them at the same time thereby necessitating accounts in both sales and purchase ledgers, how are entries made at the time of settlement?

Answer.—While these mutual accounts are not frequent they nevertheless cause the bookkeeper some annoyance in making adjustments, that is, in case separate ledgers are in use. When monthly settlements are made it would facilitate matters if each would issue his check to the other for the amount due, as if no contra account existed. This cannot always be accomplished since the management is not concerned so long as settlement has been made, consequently the bookkeeper must resort to other methods of adjustment. A memo should be made in each account noting the fact that a contra account is contained in the other ledger. The party owing the larger amount will, of course, issue a check for the excess, which should be entered as a cash payment and charged to Accounts Payable or Purchase Ledger account, as well as the payee's individual account. Then a Journal Entry should be made debiting Accounts Payable and crediting Accounts Receivable for the amount of the smaller accounts; this amount must also be entered to the individual accounts in the separate ledgers. A similar, though reverse, procedure should be followed by the receiver of the check.

Other expedients are resorted to occasionally, as issuing a check and then depositing it as a payment and a receipt at the same time, but this seems too much like the juggling of cash to be strongly advised.

Petty Accounts.—These are usually small or transient accounts of customers, and may be included in one collective account in the customers' ledger, or they may even be placed in a small ledger by themselves. A card ledger is appropriate for such transient accounts. The summary or collective petty accounts are kept as follows:

Petty Accounts.

192- Jan.			Folio		192- Jan.			Folio	
1	A. King	16	33 10		10	A. KingC	22	33 10	
5	O. W. Long	24	10 60						
10	S. H. Hahn	30	9 90		"	16	S. H. Hahn C	31	9 90
15	Susan Gray	36	18 40						
20	John Green	42	25 00		"	30	John Green C	38	25 00

It will be seen from the above that credits are entered on the same line as the respective charges. On this plan of entering, the names need not be repeated, but the entry clerk must use care in placing credits on the correct lines. Instead of entering credits on the lines opposite the charges, they are sometimes entered in order as they are paid irrespective of location; the account paid is then ticked with pen or pencil on the debit side. Other methods also are in common use among bookkeepers. In stores where the cash plan prevails there are often cases where credit is given to well-known customers. A good plan for handling these is to use a card ledger on which a detailed record of the charge should be made. No other entry is made for the sale until payment is received, at which time the amount is included as part of the day's cash sales. When preparing monthly or annual statements the customers' accounts may be included as one total in the balance sheet. If the unpaid petty accounts are considered as unsold merchandise, then such account should be entered as an inventory to the merchandise account.

A Convenient Way of Handling Invoices.

Question.—Suggest a convenient method of handling incoming invoices and expense bills, other than entering them in the ledger.

Answer.—Many bookkeepers file them away according to due date, name, or number, until the date of payment; when paid an entry is made in the cash book debiting purchases, or expense, or whatever account is involved. This is well adapted to a small business where the transactions are few, and even large institutions find it serviceable and convenient. When business statements are made, the amount outstanding on such bills and invoices must be included on the statement as a charge to the respective nominal accounts and as a liability to creditors.

Another plan is to open an account in the general ledger for Accounts Payable, or Creditors, to which shall be credited through the journal, or other book, all bills as they come in with the regular offsetting debits. As they are paid a debit is made against the Creditors' account. No accounts are kept with individual creditors, but the bills and invoices are filed as suggested in the preceding paragraph. The voucher method of recording purchases will be explained in a subsequent lesson.

Working Capital.—That portion of the net capital of any undertaking which is available for the working of such undertaking, properly speaking the liquid or current assets. It is the portion of capital used in the active operation of a business. It may consist of:

- (a) Capital stock subscribed and paid.
- (b) Capital stock sold to stockholders to raise cash.
- (c) Dividends or surplus undistributed.
- (d) Part of purchase money of business allowed to remain unpaid.
- (e) Loans from bank and others.
- (f) Proceeds of accommodation notes.
- (g) Proceeds of sale of bonds.
- (h) Proceeds from assessment of stockholders.

Forms of Ledger Accounts.—There are several forms of ledger accounts in use, and the rulings are usually made to suit the convenience of the business. Sometimes the account contains considerable data for the identification of each entry, while in others it contains only a reference to the source from whence each item is posted. In earlier days nearly all the details of each sale were placed in the customer's account but that plan does not now prevail in up-to-date business offices; yet it is sometimes advisable, especially in customers' accounts, to show supporting data for entries made. This frequently saves the trouble and time of referring back to the original entries. The use of figures, letters or symbols is not uncommon in briefing information in the ledger accounts. The ledger-account forms which follow are suggestive and can be modified to meet the needs of any establishment. They can be used in either bound, card, or loose-leaf ledgers.

Regular Form.—This form has been in common use for a great length of time and serves its purpose well. It is evidently the most popular, judging from its extensive use.

(Name of Account)							
Dr.				Cr.			
Date	Items	L. F.	Amount	Date	Items	L. F.	Amount

Money Columns in Center of Page.—This form of ruling has an advantage over the regular form in that the amounts are close together and can be readily compared, ruling serves for both columns. If desired, a balance column may be placed between the two amount columns.

Jennings & Wagner (address)

Date	Items	L. F.	Debits	Credits	L. F.	Items	Date

Balance Column.—The following form shows the manner of handling the Balance Column. It may contain at all times the balance due from or to the individual. Not infrequently, however, it is used only at the end of the month, as the attempt at making new extensions every time an entry is made involves extra work. We frequently find the balance column containing only lead pencil figures. Sometimes there are two balance columns, debits and credits, but that seems unnecessary since the nature of the account indicates whether it is debit or a credit. In the case of accounts receivable, all balances are presumably debits, and an opposite showing is usually indicated by writing the amount in red ink or by putting a ring around it. A like procedure is applicable to accounts payable also. The balance column may be placed in the center of the page if desired, or any other way deemed advisable. In cases where the balances change from debit to credit very frequently, two balance columns are necessary. This is sometimes overcome by using only one balance column and a narrow key column next to it. The nature of the balance is indicated by a Dr. or a Cr. placed before it in this narrow column. The checking column is used by the book-keeper or auditor for making check marks when verifying amounts; this column is in general use to-day in all kinds of ledgers. Sometimes a ledger page is doubled or divided into two divisions in order to get another account at the top of the page. This is called the double, double account.

David Livingstone (Address and Rating).

Date	Entry of Items	Terms	L. F.	Dr.	✓	Cr.	Balance

Package Column.—Sometimes the account is divided into two or more columns for the accommodation of items such as packages, bags, casks, interest, discount, different kinds of merchandise, etc. It is frequently advisable to keep track of such items separately, and this form has been found most appropriate. Record of bags or packages may be kept in either quantity or value. There is hardly

any limit to the use or adaptability of columns in ledger accounts, and in many cases books are ruled to order for meeting specific requirements. Both debit and credit columns should be in harmony.

Donaldson Brothers Company

Rating.....

Address.....

Credit Limit.....

Dr.					Cr.				
Date	Entry	L. F.	Bags	Amount	Date	Entry	L. F.	Bags	Amount

Loose-Leaf Form.—The form which follows can be used in either a loose-leaf or card ledger. Indeed any style of ruling or arrangement of columns may be used so long as it is adapted to the needs of the business. Loose leaves are usually numbered, and the Sheet No. indicates how many sheets or leaves have been filled for any particular account. In this case two sheets have already been used and can be found in the transfer binder; the third is now in use. It will be seen that this is Account No. 12, that is, the twelfth account opened under this particular letter of the alphabet. When a self-indexing ledger is used the account number is not needed. The unit rulings in the money columns keep the figures in line and make them easier to add, and the number of such columns required will depend upon the number of figures to be placed therein. The information respecting terms, rating and credit limit is of special value in personal accounts.

Sheet No. 3

Account No. 12

Name James Cummings

Terms

Address Baltimore, Md.

Rating

Credit limit

Date	Items	Fol.		Debits	Date	Items	Fol.		Credits

THE LEDGER AND ITS FUNCTIONS

The Ledger is the book of accounts, and all the other books converge or feed into it. It contains the various accounts of the business, in which are summarized the results of all the business transactions. As to whether or not the accounts should contain many details, depends largely upon the ideas of the bookkeeper and upon the accounting system installed. In earlier days the accounts of customers, for instance, contained the details of all sales and credits. In this respect it was practically a book of original entry, without any other record than perhaps a day book or blotter which contained a lead pencil or pen and ink record of orders when taken. The Ledger of to-day, however, is scientifically arranged, and contains only such data as are necessary in making summaries and in providing information pertaining to the business. By means of page references, full details may be obtained at any moment by consulting the books of original entry. The Ledger as we know it is a gradual evolution from the form originally used. Since the knowledge of bookkeeping principles and of the Ledger with its various accounts is fully understood by persons taking up this course, we will confine our explanations to a discussion of the practices now in vogue. In connection herewith are given the various forms of Ledger accounts which now prevail. The following kinds of ledgers are now in general use, and they can be seen at any book stationer's where office equipments are handled.

Bound Ledger.

Loose-Leaf Ledger.

Loose-Sheet Ledger.

Card Ledger.

Safeguard Ledger.

Daily Balance Ledger.

Boston Bank Ledger.

Tabular Ledger.

Retail Bill and Charge Ledger.

Bound Ledger.—The Bound Ledger has been in use for centuries and is still used in almost every business office. Its advantage lies in the fact that leaves cannot be removed and that everything placed therein becomes a permanent record. Its disadvantage lies in the fact that "dead wood" or closed accounts cannot be removed as in the case of a loose-leaf Ledger, thereby rendering the Ledger unwieldy. Of course if the Ledger is properly divided, as it should be, this disadvantage is reduced to a minimum because the index is usually referred to when any particular account is needed. Even with its additional accounts however it is not as clumsy as the average loose-leaf ledger. When opening the Ledger, sufficient space should be left to accommodate the various accounts for one, two or more years, according to the length of time it is to be used. The modern Ledger contains, as a rule, only the general accounts of the business and therefore need not be large. The fact

that it contains only live accounts, the most important accounts of the business, is strong reason for having a bound book. The index may be contained in the first few pages of the Ledger or in a separate index, or the Ledger may be self-indexing. Since the accounts are few, however, the bookkeeper will find it to his advantage to memorize the pages, at least those which are used most. A good plan is to have a card on the desk for ready reference giving the pages of the various Ledger accounts, especially of those which are most active.

Loose-Leaf Ledger.—The Loose-Leaf Ledger of today is a familiar device. It is so arranged that the leaves when filled, or when the account becomes closed or obsolete, may be removed and placed in a separate binder. The chief advantage of this Ledger lies in the fact that only live accounts are contained therein, and that unnecessary leaves are excluded. The ledger is usually locked, and leaves can be placed therein or removed simply by unlocking and releasing the tension at the back of the binder. The key is usually kept by the head bookkeeper. Of course there are various kinds of locks and binders, and various sizes of sheets to meet the requirements of different lines of business. The Loose-Leaf Ledger is usually divided alphabetically, so that names may be found in their respective locations. Twenty-six index leaves are generally used, one being placed before each letter of the alphabet on which the ledger names are placed. Sometimes the index sheets are omitted, in which case the Ledger is self-indexing. Any name can be readily located by means of the thumb tabs showing the letters and the vowels under which the respective names should be placed. The student of accounting can broaden his ideas in this respect by an inspection of ledgers and other office devices in any good office equipment house. Forms are frequently shown in magazines and in the advertisements of supply houses, and these can be studied to advantage.

Loose-Sheet Ledger.—This is a sort of Ledger that has come into use in recent years and has made itself quite popular, especially for small retail accounts. A carbon copy of each time-sale is made, usually on the typewriter, and placed in a binder or file under the customer's name. It will be seen that his account consists entirely of loose sheets, and as each charge is paid the sheet or sheets can be removed and placed in a transfer binder. The original, of course, is given or mailed to the customer at the time the sale is made. The amount due from each person may be totaled on the last sheet placed in the file, or a summary may be contained on a separate sheet kept for that purpose. The sheets are filed away under the name or number of the customer and can be referred to readily. They may be kept all together in the binder under the respective letters, or else placed in a folder and filed in a regular filing case in the same manner as the regular correspondence. This plan of account keeping has been found advantageous in many cases where small sales are made, and since it eliminates all copying and intermediate records

the probability of error is reduced to a minimum. It might even be more simplified by adopting the plan suggested below under the "bill and charge form." The sales for the day may be summarized on a separate sheet or on the adding machine and the aggregate credited to Sales account, with a corresponding charge to a controlling account for customers in the General Ledger. If desired, this plan of ledger may be maintained only for small sales and such accounts retained entirely as an auxiliary record until payment is made, at which time said payments may be entered in the sales for the day.

Sometimes customers' accounts are filed according to number, in which case separate index cards are required. The index card or book gives the name, address, and number of each customer. All sales to him are, therefore, recorded in a file or case according to the number given and can be referred to readily. Either cards or loose sheets may be used.

Card Ledger.—The Card Ledger has become exceedingly popular. Cards are used exclusively, but in the same manner as the leaves of a Ledger. They are ruled the same as ledger accounts, both front and back, and are placed in alphabetical order in a cabinet or tray. These cards constitute the "ledger" and can be conveniently divided in any way desired—alphabetically, numerically or geographically. The size of the cards may be large or small to suit conditions and to accommodate the number of details to be placed thereon. The stock size is 3 by 5 inches. The regular ledger ruling may be used or else rulings designed to meet special cases. When an entry is to be made the card is removed from the file, and afterward returned to its place. Closed and inactive accounts should be removed therefrom and placed in a separate tray, keeping only current or live accounts in the main files. Care must be taken to see that the cards are placed where they belong after entries are made thereon. Some bookkeepers finish all postings before replacing any of the cards in the files. When this is done a summary or proof of all entries can be made to determine whether or not they agree with the total sales and credits for the day. This is a commendable plan.

Tabular Ledger.—This is a columnar ledger or book for the keeping of accounts which require to be dissected or divided into their component parts. The customers' names are placed in a margin at the left-hand side of the page, leaving one, two or three lines for each name and address, while the items of charge are distributed into the various columns. The columns are headed with each class of items requiring to be credited. It will be seen then that a debit is made to the customer and a credit to the accounts represented by the column headings. A "total" column is used at some convenient place on the page, and it is obvious that the aggregate of all distributive columns should equal the total column. This form of ledger is especially well adapted to keeping accounts of water, light, and tele-

phone companies, and to many other activities where great divisions are necessary. It has been applied to advantage in building and loan associations, hotels, real estate offices, etc. It is a very good plan for the use of professional men. The daily balance ledger illustrated on another page is a form of tabular ledger, also the expense analysis sheet explained in this lesson. Sometimes the customers' names are placed at the top of columns and the constituent items placed in the left-hand margin. The book may be bound or loose-leaf, but the latter seems to be the more popular at the present time.

Retail Bill and Charge Form.—This Ledger is very much like the loose-leaf plan mentioned above, and it is especially desirable for the retail grocery business where frequent small sales are made. It has been called a Ledgerette. For persons who make numerous small purchases to be paid for on pay-day or at specific times, it is particularly appropriate. The purchases made by the customer are all entered on a statement sheet, the customer's name being placed at the top. Items of first, second and third purchase are placed in succession, making use of the back of the sheet if necessary. When the customer pays his bill, the sheet is removed from the file, receipted and given to him. In this way the file is not encumbered with closed accounts. The benefits of this method are apparent where a large number of accounts are paid on a single day. The loose leaves or statements are filed in a common binder and arranged alphabetically for ready reference. A carbon copy of each bill may be made if desired and placed in the binder along with the statement of daily entries. These copies may be returned to the customer when settlement is made, or kept for future reference if necessary. Of course, the disadvantage of this plan lies in the fact that no permanent record is kept of the customer's account, since the so-called account is removed from the binder, receipted and given to him at the time of payment. It is an improvement however over the pass book plan which is still used in some places. Sometimes the typewriter or billing machine is used. This is an improvement on the plan suggested above since a carbon copy is kept for permanent record. The form given herewith illustrates the plan in general use. The folded sheets with carbon between, are kept in a binder, or in a vertical file, and as the charge slips are sent in from the clerks making the sales, these sheets are taken from the binder or file and slipped into the typewriter at the proper place by means of the Retail Bill and Charge attachment, and the charge made. At the end of the month the original is torn off and mailed to the customer as an itemized bill or statement, and the copy filed in a monthly binder which forms a Sales Ledger for that month. As the accounts are paid they are taken from the binder and placed in a permanent file. This system contemplates monthly settlements by customers, and in February the manager can refer to his January binder at any time and see the unpaid January accounts.

(Retail Bill and Charge Form)

Folio.....

HAMILTON GROCERY COMPANY

241 Broadway,
New York, N. Y.

Sold to Mrs. C. J. Cromwell,
Address 1414 Providence Ave., City.
Month February, 192-.

Date	Description	Price	Amount	Daily Total	Credits
3	2 lbs. Coffee	.40	.80		
	16 lbs. Sugar		1.00		
	50 lbs. Potatoes		.50	2.30	
5	5 lbs Roast Beef	.25	1.25		
	2 Heads Lettuce	.05	.10	1.35	.80
5	2 lbs. Coffee returned	.40		3.65	
				.80	
				2.85	

NOTE.—Credits may be written in red ink.

Daily Balance or Safeguard Ledger.—This Ledger has come into prominent use, especially in banking institutions, where it is known as the "Boston Bank Ledger." It is known also as "Daily Balance Ledger" since it is balanced and proved daily, thereby providing a safeguard against errors. A form of this Ledger is given herewith.

The Safeguard Ledger is a columnar book either bound or loose-leaf, and the number of columns required depends upon the number of items to be entered. The columns are in groups of three or four and are designed to cover the transactions for one day, one week or one month as the case may be. If the entries are made daily, each double page may cover one or two months; if weekly, from three to six months, and if monthly, at least one year. By the use of short leaves the accounts can be continued from page to page without rewriting the names. As will be seen by the illustration, three columns are given to each day, but if the transactions are numerous an additional column should be used or additional lines given to the account. The number of lines required for each person or account will depend upon the activity of the account, and may take as many as four.

The accounts may be numbered, as indicated, if desired. Balances are carried forward from day to day or week to week as may be the case. When the pages are wide every third, fourth or fifth line should be either heavy or of another color to serve as guide lines. The advantage of this kind of ledger lies in the fact that it is a proof against errors in balancing, because if an error has been made the daily totals will not prove. The total of the previous balance column plus the debits, minus the credits, must equal the new balance column which is made up of the aggregate of individual balances. A reference to the form will make this clear. This ledger

April, 192—

Safeguard or Daily Balance Ledger

Name	Monday, April 7, 192—			Tuesday, April 8, 192—			Wednesday, April 9, 192—		
	Balance	Debits	Credits	Balance	Debits	Credits	Balance	Debits	Credits
1 J. H. Anderson, Scranton, Pa.	960 20	142 00	100 00	1002 20	65 00	82 20	985 00		
2 D. W. Long, 872 Market St.	234 60	110 00	150 00	194 60	—	100 00	94 60		
3 George Davis, Trenton, N. J.	75 50	80 50	120 00	36 00	54 00	90 00	—		
4 Bain Manufacturing Co., Dover, Del.	775 60	130 00	—	905 60	84 20	—	989 80		
5 A. W. King & Co., City.	—	563 00	200 00	363 00	428 40	300 00	491 40		
6 Block Brothers, Pittsburgh, Pa.	220 00	175 80	500 00	*104 20	740 70	—	636 50		
7 Etc., Etc.									
Footings	2265 90	1201 30	1070 00	2501 40	1372 30	572 20	3197 30		
Negatives				104 20					
Balances				2397 20					

NOTE.—The star (*) indicates red ink; a negative to be subtracted.

can be adapted to the accounts of either customers or creditors, and since several accounts are contained on a page the reference thereto is considerably facilitated. It is used extensively in banking institutions for both General Ledger and Depositors' Ledger. When both debits and credits are to be placed in the one balance column the debits should be recorded first and then followed by the credits, or if desired the credits may be in red ink in order to designate them from the debits which are in black. A negative balance must of course be recorded in the opposite colored ink. In the Depositors' Ledger the columns are usually headed: Balance, Deposits, Checks, Total Checks, Balance. There is usually a controlling account in the general ledger to represent the amount indicated by the separate ledger.

THE SUBDIVISION OF LEDGERS

In a business of moderate size all of the transactions may be recorded in a simple set of books in which one ledger is used to contain all of the accounts involved, and from which the trial balance is taken at desired intervals. In almost every large business, however, it is found advisable to subdivide the various books in order that clerks and bookkeepers may perform the duties assigned to them without interfering with the work of one another. In carrying out this plan of division it becomes necessary to subdivide the ledger into two or more parts because of the great number of transactions which have to be recorded. This division permits of posting being done by two or more ledger keepers where the work has been found too heavy for one. The most general divisions of the ledger are as follows:

(A) **Sales Ledger** containing the personal accounts of customers. This ledger may be bound, loose-leaf or card, according to the plan desired, but the manner of handling it is the same in each case. It is known also as the Debit Ledger, Customers' Ledger, and Accounts Receivable Ledger.

(B) **Purchase Ledger** containing the personal accounts of creditors, the persons from whom we purchase goods. Like the above, this ledger may be bound, loose-leaf or card. It is known also as Credit Ledger, and Accounts Payable Ledger; also as Foreign Ledger, for importers.

(C) **Expense Ledger** containing the various expense accounts of the business. By the use of this special ledger the various expenses can be subdivided into their component parts more readily than could be done in the general ledger.

(D) **General Ledger** containing all of the main or general accounts of the business. It may be bound, loose-leaf or card, as desired, but in most cases it is thought best to use a bound ledger for the general accounts. This ledger contains Controlling Accounts with the various subordinate ledgers and is therefore self-balancing.

Sometimes these ledgers are still further divided. For instance, instead of one sales Ledger there might be a City Sales Ledger and a Country Sales Ledger, or a number of Ledgers arranged according to the letters of the alphabet, as Sales Ledger A to L, and Sales

Ledger M to Z. The Purchase Ledger might be divided similarly. Special Ledgers may be kept also for Branch offices, or if desired for Private accounts, that is, those accounts pertaining to capital, plant and revenue which are to be kept from the scrutiny of the bookkeepers. The special ledgers are known under different terms as Auxiliary Ledger, Special Ledger, Subordinate Ledger, Separate Ledger, Side Ledger, etc.

The General Ledger (sometimes called the Private Ledger) is usually kept by the head bookkeeper, while the various subordinate ledgers are kept by assistants and made to harmonize with the General Ledger from time to time, either daily, weekly or monthly. The total sales, purchases, expense, credits to customers by cash or otherwise, and debits to creditors of cash or notes, are either obtained from the respective books by the head bookkeeper himself from which he makes entries to the General Ledger accounts, or they are reported to him in writing from time to time by his assistants, from which reports he makes the required entries. In any case, his ledger is made to show the transactions of the business in totals while the details are recorded in the separate ledgers. When the General Ledger itself involves more work than the head bookkeeper can give to it, a further division is made and known as the Private Ledger, in which case controlling accounts are kept also between these ledgers the same as between the General Ledger and the subordinate ledgers. The Private Ledger may be kept by the senior bookkeeper or by one of the proprietors.

While it is true that the subdivision of ledgers may be carried to excess in some cases, on the other hand it has many advantages in a large institution where the work is heavy and the employment of many assistant bookkeepers required. Some of the other special ledgers most commonly used are as follows:

1. **Branch Office Ledger**, containing separate accounts with the various branches maintained by the institution.
2. **Agents' Ledger**, containing accounts with the various agents.
3. **Consignment Ledger**, containing accounts with the various commission merchants or agents to whom goods are consigned for sale on commission. A special ledger may also be kept for consignments received to be sold for others.
4. **Plant Ledger**, containing separate accounts for the various machines, engines, plant parts, etc.
5. **Real Estate Ledger**, containing accounts with the various holdings of Real Estate—buildings, ground, etc.
6. **Investment Ledger**, containing details of the various investments in stocks, bonds, mortgages, commercial paper, etc.
7. **Contract Ledger**, containing accounts and details of the various contracts being conducted by contractors, builders, etc.
8. **Cost Ledger**, showing the accounts and details of the various jobs in the cost department of a manufacturing establishment.
9. **Material Ledger**, showing the accounts and details of the various kinds of material and stock held by a manufacturing concern.

10. **Advertising Ledger**, containing accounts of the various kinds of advertising being carried in periodicals, papers, etc. This may also include accounts of the various agencies through whom advertising is placed.

11. **Stockholders' Ledger**, containing accounts of the various stockholders of a corporation.

In some cases two or more of the above mentioned ledgers are included in one. In a small business where the subdivision of the ledger is required and the accounts are not numerous enough to justify the opening of a special ledger, a common plan is to divide the General Ledger into two or three parts. Under this plan the accounts of customers can be placed in the back part of the book, and the accounts with creditors preceding them in the center of the ledger, while the general accounts can all be placed in the first part of the book with or without controlling accounts to represent the subdivisions. Although the ledger may be divided into several parts the final results remain unchanged, as at any time the sum of all the debits will equal the sum of all the credits if the posting has been correctly done, and exactly the same Trial Balance results will be obtained as if all the accounts had been kept in one ledger instead of in several. But if the books should prove to be out of balance, then arises the desirability of being able to determine at once which ledger is wrong; this can readily be done by keeping Controlling Accounts in the different ledgers by means of which each ledger-keeper is able to prove the accuracy of his own work by taking off an independent Trial Balance.

CONTROLLING ACCOUNTS

By means of Controlling Accounts (known also as Control Accounts, Summary Accounts and Adjustment Accounts) the proprietor is enabled to ascertain without delay the total amount due from customers or to creditors. Where the accounts aggregate hundreds, and even thousands, this saving of time can easily be appreciated. In nearly every large business subordinate ledgers are kept, thus requiring the use of the controlling accounts. The personal ledgers represented by the controlling accounts are known as Sales Ledger, Accounts Receivable Ledger, Debit Ledger; and Purchase Ledger, Accounts Payable Ledger, Credit Ledger. The word, "Controlling" need not be placed after the name of the account; it is done herein to save confusion. Some bookkeepers while maintaining self-balancing ledgers do so by entirely omitting controlling accounts. When taking the monthly Trial Balance, they secure from the assistant bookkeepers the aggregate of accounts contained in their ledgers and if such aggregates are correct a Trial Balance can be obtained without further work. The benefits derived from this procedure are that the necessity of making entries to Controlling Accounts is entirely obviated, thus saving time and unnecessary confusion. It is advisable however to maintain the controlling accounts in the General Ledger in order that the head bookkeeper may keep in touch at all times with conditions without having to depend upon his assistants. The

controlling accounts may conveniently be omitted from the subordinate ledgers.

Self-Balancing Ledgers.—By the use of Self-Balancing Ledgers it is possible for a merchant to obtain a complete statement of his business from the General Ledger alone without reference to either the Sales or Purchase Ledgers, for the reason that the difference between the two sides of the Sales Ledger account in the General Ledger is the net total balance due from customers, and the difference between the two sides of the Purchase Ledger account shows the net total balance due to creditors; in other words these two accounts are summaries of the ledgers which they represent. Another great advantage in having books arranged on this principle, is that mistakes in any one of the Ledgers can be located quite readily because if a Ledger is out of balance the error is necessarily one connected with the entries posted to that particular ledger. When all of the Ledgers are in balance the General Ledger Controlling account in the Sales Ledger will correspond with the Sales Ledger Controlling account in the General Ledger with the sides reversed; and the Purchase Ledger Controlling account in the General Ledger will similarly correspond with the General Ledger Controlling account in the Purchase Ledger.

Debit Ledger Controlling Account.—As already stated, the names used for designating different ledgers vary considerably, and yet any one of them is perfectly suitable. In the following account we illustrate the manner of keeping the controlling account for customers during a period of one month. The word "controlling" is frequently omitted.

CUSTOMERS' CONTROLLING ACCOUNT

192- Jan.	1	Balance			192- Jan.	31	Cash, receipts for month	25	\$25898 60
	31	Sales, total for month	16	22894 33		"	31 Discounts	25	113 25
						"	31 Notes receivable	14	7500 00
						"	31 Sundry credits	26	735 20
						"	31 Balance		25232 23
				59479 28					59479 28
Feb.	1	Balance		25232 23					

Credit Ledger Controlling Account.—The accounts with creditors are of course the opposite of those with customers, and are recorded in the separate ledger. The account which follows indicates the sources from whence it receives its entries. It must be kept in mind that controlling accounts as a rule record totals only, though it is not unusual for separate items to be posted thereto. The illustrations herewith show monthly totals, but they may be posted weekly if desired, or even daily. When a separate ledger is first opened, the old accounts that have to be entered therein should be posted through the journal. If there are too many accounts, the journal may record only the total, and then refer to the various

accounts themselves as opened in the ledger or as contained on a separate schedule.

CREDITORS' CONTROLLING ACCOUNT

192- Jan.	31	Cash	25	\$12468 15	192- Jan.	1	Balance		\$13262 25
	31	Discounts	25	103 60		"	31 Purchases for month	31	18911 36
	31	Sundry debits	27	1050 00					
	31	Balance		18551 86					32173 61
				32173 61					
					Feb.	1	Balance		18551 86

Set of Transactions.—We shall illustrate the use of Controlling Accounts by entering the following simple transactions through the books, which for this purpose we shall assume to be the Cash Book, Sales Book, Purchase Book, Journal, Bill Book, Sales Ledger, Purchase Ledger, Expense Ledger, and General Ledger. The books are shown to illustrate the plans of procedure, not as models of form:

192-	Sept. 1	Began Business with a Cash investment of	\$5,000.00
	Sept. 1	Paid Rent, \$50, and office expenses, \$35.	
	Sept. 5	Bought Merchandise on account from A. Gray	300.00
	Sept. 6	Bought Merchandise on account from J. Wood	400.00
	Sept. 7	Bought Merchandise on account from S. H. Long	800.00
	Sept. 8	Sold Merchandise on account to W. Smith	100.00
	Sept. 8	Bought Merchandise on account from Bain & Murray	900.00
	Sept. 10	Paid cash for advertising \$60, and for general expenses \$40.	
	Sept. 15	Sold Merchandise on account to G. Miller	150.00
	Sept. 15	Sold Merchandise on account to A. B. Donlin	500.00
	Sept. 16	Sold Merchandise on account to J. W. Stevens	450.00
	Sept. 16	Paid A. Gray \$120 on account.	
	Sept. 20	Paid J. Wood \$230 on account.	
	Sept. 20	Gave note at 30 days to Bain & Murray	600.00
	Sept. 20	Received A. B. Donlin's 20-day note for	300.00
	Sept. 20	Paid Office expenses	25.00
	Sept. 22	Received of W. Smith, \$75 on account.	
	Sept. 22	Gave S. H. Long 20-day note for \$400, and received note for one month from J. W. Stevens, \$200.	
	Sept. 25	Received of George Miller \$80 on account.	
	Sept. 30	Paid salaries for month	200.00
	Sept. 30	Inventory of Merchandise on hand	1,850.00

To enable the ledgers to be balanced independently the entries which are to be posted to the Personal accounts in the Sales and Purchase Ledgers must be so arranged that the totals of these postings can be readily ascertained and posted to special Controlling accounts in the General Ledger. The entries made in the various books are shown on the following pages:

Cash Book
192- **Receipts** **Payments**

Date	Account Credited	Folio	Sales Ledger	General Ledger	Date	Account Debited	Folio	Pur. Ledger	Expense	General Ledger
Sept.	1 Capital Investment			5000 00	1 Sept.	1 Rent Month of			50 00	
22	W. Smith on account		75 00		1	Office Expenses			35 00	
25	G. Miller on account		80 00		10	Advertising			60 00	
						General Expenses			40 00	
					16	A. Gray on account		120 00		
					20	J. Wood on account		230 00		
					20	Office Expenses			25 00	
					30	Salaries for Month			200 00	
					30	Dr. Purchase Ledger		350 00	410 00	
			155 00	5000 00		Account				
25	Cr. Sales Ledger Account			155 00		Cr. Gen. Ledger				
	Dr. Gen Ledger Account					Account in Purchase				
	in Sales Ledger					Ledger		410 00		
					30	Dr. Expense Account				
						Cr. Gen. Ledger				
						Account in Expense				
						Ledger		4395 00		
					30	Balance on hand				
				5155 00						
				4395 00						
Oct.	1 Balance on hand									

Posting from the Cash Book.—Note that the \$155 received from customers is a Credit to Sales Ledger Controlling Account in the General Ledger, as well as to their individual accounts in the Sales Ledger; this amount is also a Debit to General Ledger Controlling Account in the Sales Ledger for the purpose of making that ledger self-balancing also. A similar, though reverse, treatment is made of the \$350 paid to creditors. The expenses shown in the Expense column occupy a ledger by themselves. Expense Account is Debited in the General Ledger for \$410, while the several expense accounts are shown separately in the Expense Ledger.

The amounts appearing in the Cash Book under columns headed "General Ledger" are posted in the usual way to the proper Ledger accounts in the General Ledger. It will be seen that each item to be posted to the Sales Ledger appears in the Sales Ledger column, W. Smith being credited with \$75, and George Miller with \$80. The total of this column is posted to the credit side of the Sales Ledger Controlling account in the General Ledger, thus showing in one amount the total credits which have been posted to the Personal Accounts in the Sales Ledger during the month. We now have in the Sales Ledger credits amounting to \$155, with no corresponding debit; we therefore make an adjustment entry to represent the cash debit of \$155. This is, for illustration, placed on the debit side of the Cash Book, as shown in the illustration, General Ledger Controlling account being debited for \$155 in the Sales Ledger.

In the column headed "Purchase Ledger" will be found items to be posted to the Personal accounts in that book; A. Gray is thus debited with \$120 and J. Wood \$230, in the Purchase Ledger. The total of this special column is posted in the General Ledger to the debit of Purchase Ledger Controlling account, thus showing the total payments of cash to creditors during the month. In order to obtain a balance in the Purchase Ledger a special adjustment entry is posted to the credit side of General Ledger Controlling account in that book; this amount of \$350 is, for illustration, placed on the credit side of the Cash Book, as shown in the illustration, General Ledger Controlling account being credited for \$350 in the Purchase Ledger. A like procedure is followed for Expense Ledger. The Cash account itself is in reality a part of the General Ledger, and the balance of \$4,395 in conjunction with the accounts already posted, produce a perfect Trial Balance from the General Ledger.

Sometimes the Cash Book is subdivided in order to permit of two or more persons working on it at the same time. It is not uncommon to find three or more books containing the cash receipts in order that each set of ledgers may have its corresponding entries for cash received from customers. This gives the entry clerk exclusive use of his own cash book, though the head bookkeeper may himself have control of the cash. In this way the credits of the various cash books are correlated in the main cash book of the bookkeeper, cashier or treasurer.

Posting from Sales Book.—Customers are charged with the amounts opposite their names in their respective accounts in the

Sales Book

192-

Sept.			S. L.	FO.	
8		W. Smith			\$100 00
15		G. Miller			150 00
15		A. B. Donlin			500 00
16		J. W. Stevens			450 00
		Credit General Ledger Controlling %			\$1200 00

Sales Ledger, and an account in the Sales Ledger called General Ledger Controlling Account is credited with the total, taking the place of the Sales Account which is credited in the General Ledger from the following Journal entry made at the end of the month:—

Sales Ledger Controlling Account, Dr. \$1200.00
To Sales \$1200.00

This form of entry may be made at the end of the Sales Book or in the Journal or the posting may be done without it by carrying the total direct to the accounts affected. This entry and the corresponding entry for purchases is shown in the Journal herewith in order to illustrate the plan of procedure.

The Sales Books of the business are sometimes subdivided in accordance with the number of Sales Ledgers maintained. In case Sales Sheets are used instead of Sales Books, the division is obviated since the carbon sheets may be filed together or separately after the postings are made.

Purchase Book

192-

Sept.			P. L.	FO.	
5		A. Gray			\$300 00
6		J. Wood			400 00
7		S. H. Long			800 00
8		Bain & Murray			900 00
		Debit General Ledger Controlling %			\$2400 00

Posting from Purchase Book.—The creditors from whom we purchased are respectively credited with \$300, \$400, \$800, and \$900 in the Purchase Ledger and General Ledger Controlling account is debited for \$2,400 in the same book; then Purchase Ledger Controlling account is credited in the General Ledger from the following Journal entry made at the end of the month:—

Purchases, Dr. \$2,400.00
To purchase Ledger Controlling Account \$2,400.00

Columnar Journal—Transactions for September, 192-

	Purchase Ledger	Sales Ledger	General Ledger	L. F.	Entries	L. F.	General Ledger	Sales Ledger	Purchase Ledger
		300 00		11	Sept. 20 Bills Receivable To A. B. Donlin A. B. Donlin's 20-day note	10	300 00		
			600 00	10	Sept. 20 Bain & Murray To Bills Payable Our 30-day note to Bain & Murray	12			600 00
		200 00		11	Sept. 22 Bills Receivable To J. W. Stevens' note for one month	10	200 00		
			400 00	10	Sept. 22 S. H. Long To Bills Payable Our 20-day note to S. H. Long	12			400 00
			2400 00	10	Sept. 30 Purchases To Purchase Ledger Controlling Account	10	2400 00		
			1200 00	10	Total Purchases for the month Sept. 30 Sales Ledger Controlling Account To Sales	10	1200 00		
			4600 00	25	Total Sales for the month General Ledger	20	4100 00		1000 00
			500 00		Purchase Ledger Account		1000 00		
			5100 00		Sales Ledger Account		5100 00		

The General Ledger

Dr.				Capital Account				Cr.			
				192-	Sept.	1	By Cash		\$5000	00	
Dr.				Purchase Ledger Controlling Account				Cr.			
192-	Sept.	30	To Cash		192-	Sept.	30	By Purchase	\$2400	00	
			To Sundries						1000	00	
Dr.				Sales Ledger Controlling Account				Cr.			
192-	Sept.	30	To Sales		192-	Sept.	30	By Cash	\$155	00	
								By Sundries	500	00	
Dr.				Notes Receivable				Cr.			
192-	Sept.	20	A. B. Donlin 20 days						\$300	00	
		22	J. W. Stevens 1 month						200	00	
Dr.				Notes Payable				Cr.			
					192-	Sept.	20	Bain & Murray 30 days	\$600	00	
						Sept.	22	S. H. Long 20 days	400	00	
Dr.				Purchases				Cr.			
192-	Sept.	30	To purchase Ledger								
			Controlling Account						\$2400	00	
Dr.				Sales				Cr.			
					192-	Sept.	30	By Sales Ledger			
								Controlling Account	\$1200	00	
Dr.				Expenses				Cr.			
192-	Sept.	30	To Cash						\$410	00	

General Ledger Trial Balance September 30, 192-

	Dr.	Cr.
Capital		\$5000 00
Purchase Ledger	\$1350 00	2400 00
Sales Ledger	1200 00	655 00
Notes Receivable	500 00	
Notes Payable		1000 00
Purchases	2400 00	
Sales		1200 00
Expenses	410 00	
Cash	4395 00	
	\$10255 00	\$10255 00

The Sales Ledger

Dr.				General Ledger Controlling Account				Cr.			
192-	Sept.	30	To Cash		192-	Sept.	30	By Sales	\$1200	00	
			To Sundries						500	00	
Dr.				W. Smith				Cr.			
192-	Sept.	8	To Merchandise		192-	Sept.	22	By Cash	\$75	00	
									\$100	00	
Dr.				G. Miller				Cr.			
192-	Sept.	17	To Merchandise		192-	Sept.	25	By Cash	\$80	00	
									\$150	00	
Dr.				A. B. Donlin				Cr.			
192-	Sept.	15	To Merchandise		192-	Sept.	20	Note 20 days	\$300	00	
									\$500	00	
Dr.				J. W. Stevens				Cr.			
192-	Sept.	16	Merchandise		192-	Sept.	22	Note 1 month	\$200	00	
									\$450	00	

Sales Ledger Trial Balance, September 30, 192-

General Ledger							
W. Smith				\$25	00		\$545 00
G. Miller				70	00		
A. B. Donlin				200	00		
J. W. Stevens				250	00		
				\$545	00		545 00

The Purchase Ledger

Dr. General Ledger Controlling Account				Cr.			
192- Sept.	30	To Purchases	\$2400 00	192- Sept.	30	By Cash	\$350 00
					30	By Sundries	1000 00
Dr. A. Gray				Cr.			
192- Sept.	16	To Cash	\$120 00	192- Sept.	5	By Merchandise	\$300 00
Dr. J. Wood				Cr.			
192- Sept.	20	To Cash	\$230 00	192- Sept.	6	By Merchandise	\$400 00
Dr. S. H. Long				Cr.			
192- Sept.	22	20 days	\$400 00	192- Sept.	7	Merchandise	\$800 00
Dr. Bain & Murray				Cr.			
192- Sept.	20	Note 30 days	\$600 00	192- Sept.	8	Merchandise	\$900 00

Purchase Ledger Trial Balance, September 30, 192-

General Ledger	\$1050 00	\$180 00
A. Gray		170 00
J. Wood		400 00
S. H. Long		300 00
Bain & Murray		
	\$1050 00	\$1050 00

The Expense Ledger

Dr. General Ledger Controlling Account				Cr.			
192- Sept.	30	By Cash	\$410 00				
Dr. Rent				Cr.			
192- Sept.	1	To Cash	\$50 00	192-			
Dr. Office Expenses				Cr.			
192- Sept.	1	To Cash	\$35 00	192-			
	20	To Cash	25 00				
Dr. Advertising				Cr.			
192- Sept.	10	To Cash	\$60 00	192-			
Dr. General Expenses				Cr.			
192- Sept.	10	To Cash	\$40 00	192-			
Dr. Salaries				Cr.			
192- Sept.	30	To Cash	\$200 00	192-			

Expense Ledger Trial Balance, September 30, 192-

General Ledger	\$410 00	\$410 00
Rent	\$50 00	
Office Expenses	60 00	
Advertising	60 00	
General Expenses	40 00	
Salaries	200 00	
	\$410 00	\$410 00

The Bill Book

Bills Receivable (or Notes Receivable)

192-

No.	When Received	Account Credited	L. F.	Amount	Maker or Drawer	Date of Note	Time	Due	How Settled	Remarks
1	September 20	A. B. Donlin	11	300 00	A. B. Donlin	Sept. 20	20 days	Oct. 10		
2	September 22	J. W. Stevens	11	200 00	J. W. Stevens	Sept. 22	1 month	Oct. 22		
		Dr. Bills Receivable	10	500 00						
		Cr. Accounts Receivable	25							

Bills Receivable. When the Bill Book is used as a "principal book" all postings are made from it to the respective accounts, in which case the two notes recorded above would be posted to the credit of Donlin and Stevens. The total is then debited to Bills Receivable account in the General Ledger, and credited to Accounts Receivable or Sales Ledger, whichever title is given to the account. Our illustration of a Journal on another page, shows all notes journalized, but when the Bill Book is used as a principal book the journal entries are not required excepting in cases where totals are posted through the journal.

Bills Payable (or Notes Payable)

192-

No.	Date	Account Debited	L. F.	Amount	Payee	Time	Due	How Settled	Remarks
1	September 20	Bain & Murray	12	600 00	Bain & Murray	30 days	Oct. 20		
2	September 22	S. H. Long	12	400 00	S. H. Long	20 days	Oct. 12		
		Dr. Accounts Payable		1000 00					
		Cr. Bills Payable							

Bills Payable. When the Bill Book is used as a "principal" book all postings of notes are made through it and not through the Journal. See further explanations under bills and notes payable and under the general heading.

From the foregoing it will be seen that the General Ledger, Sales Ledger, Purchase Ledger, and Expense Ledger each contains a complete system of double entry in itself. A Trial Balance may be taken from any one of them without reference to the others, hence the term "Self-balancing," meaning that each ledger contains a balance within itself.

The Journal.—In modern bookkeeping systems the Journal is given subordinate place since the various entries for purchases and sales, cash receipts, payments, etc., are contained in other books. It is therefore used only for the entry of items which do not properly belong to other books, as Opening Entries, Closing Entries, Adjusting Entries, Interest, etc. It may also be used by the head bookkeeper for entering totals of Purchases, Sales, etc., at the end of the week or month, as shown below, in case these amounts are not posted from the Sales and Purchase Books direct. It is not unusual also to find a separate Journal used by assistant bookkeepers for the adjustment of items in the respective subordinate Ledgers, but any adjustment as between Ledgers must necessarily be made by the head bookkeeper in the General Ledger so that the controlling accounts therein may be adjusted accordingly and kept in harmony with the special ledgers.

In order that the student may be perfectly clear on the manner of handling separate ledgers and Controlling Accounts, we have posted the transactions from the Cash Book, Sales Book, Purchase Book and Journal to the several Ledgers to which they belong and have taken a Trial Balance from each Ledger, as shown on the following pages.

Federal Income Taxes.

The question of taxes enters into almost every business statement, whether for an individual partnership or corporation. But while the matter is not considered in this lesson it must always be kept in mind in the preparation of business statements.

Under the income tax laws, the amounts paid for such taxes cannot be regarded as deductible expenses. For an individual or partner, taxes may be entered as withdrawals, but in the case of a corporation they are chargeable against surplus.

The Bill Book as a Principal Book.

The Bill Book contains a complete record of all notes and acceptances received and all notes and acceptances given; it is also known as Notes Receivable and Notes Payable Book. The first half of the book is usually devoted to commercial paper received and the second half to commercial paper given. In a business where few notes and acceptances are handled, this book is kept entirely as an auxiliary book for the purpose of showing the details of the paper given and received, while the book entries for such papers are made in the Journal and from there posted to the Ledger accounts affected.

Sometimes the Bill Book is used as a "principal book," in other words as a posting medium. In that case all notes and acceptances are entered directly into this book and not into the journal; posting

is done directly from it to the ledger accounts in the same manner as cash is posted from the Cash Book to the Ledger accounts, thus obviating the necessity of making extra journal entries.

Let us take the Bills Receivable. All notes and acceptances are recorded, and there should be columns for "accounts to be credited," "ledger folio," "amounts of notes received," "amounts of payments," and "remarks." All payments on account of the notes and acceptances are shown in the credit column. At the end of each week or month the totals of Bills Receivable should be carried to the Bills Receivable account in the General Ledger. This posting of totals may be done directly from the Bill Book or by means of Journal entries, as in the case of sales and purchases shown in the Journal herewith. The aggregate amount of credits to Bills Receivable is posted from the Cash Book or Journal to the credit of Bills Receivable account in the General Ledger. The paper remaining unpaid should be listed in order to prove its correctness by comparison with the Bills Receivable account in the General Ledger. When the notes handled are numerous special columns should be maintained in the Cash Book for their accommodation.

Take Bills Payable. Notes and acceptances payable should be handled similarly to the Bills Receivable though the entries will be in reverse order. Renewals can be handled by simply making memo's of such renewals in the Bill Book, or by making two entries—one entry for cancellation of the old note and another for the new note issued. A simple form of Bill Book is shown in connection with this lesson. The general ledger account may be carried as shown below, though postings may be made more frequently, if desired.

Bills Receivable*

192-				192-			
Jan.	31	Bill Book	\$7640.20	Jan.	31	Cash	\$3264.80
Feb.	28	Bill Book	3984.60	Feb.	28	Cash	5132.50
Mar.	31	Bill Book	6150.75	Mar.	31	Cash	4565.70
Apr.	30	Bill Book	9548.30	Apr.	30	Cash	6212.50
				Apr.	30	Balance	8148.35
			<u>\$27323.85</u>				<u>\$27323.85</u>
May	1	Balance	\$8148.35				

Note.—The account may be left open and the monthly balances noted in the margin. It is advisable however to balance it up at least once a year. The balance should agree with the unpaid notes as per bill book, and should be verified regularly. The Notes Payable account is kept in the same manner except that items are reversed.

*Or notes receivable if all the receivables are notes.

CLOSING THE BOOKS

Once a year, or oftener, it is customary to "close the books." This is also known as "closing the ledger," and as "closing the ac-

counts." It is usually done at the end of the fiscal year, which may or may not be at the end of the calendar year. It is preferable to have the year end at a time when business is slack or when most convenient to take an inventory. In the coal business, for instance, the closing would be done most advantageously at a time when the coal supply is low, due to the fact that a physical inventory can be taken with less work than when a full supply of coal is on hand. At the time of closing, it is customary to prepare a Profit and Loss Statement showing the business operations for the year, also a Balance Sheet or Statement of Condition showing the assets and liabilities of the concern and its Net Worth. This is all done, of course, for the benefit of the proprietors of the concern, whether it be owned by an individual, by partners, or by a corporation. Sometimes statements are made out monthly, quarterly, or half-yearly for the purpose of supplying information which the proprietor cannot conveniently wait for until the end of the year. This does not mean that the Ledger is to be closed, or any of the accounts affected, but simply that details are compiled from the books and presented in condensed form. Indeed, where the inventories can be determined from the books, without making a detailed valuation, a complete monthly profit and loss statement can be made with very little extra work. This depends of course upon the bookkeeping system in use, and very largely upon the ability and resourcefulness of the person in charge. When closing, it is customary to close all nominal accounts, that is, all accounts which show profits and losses; but before doing so it is necessary to determine all inventory valuations, accrued charges, allowances, etc. These details are familiar to most persons studying these lessons, but for the benefit of others not so far advanced they will be illustrated more fully in subsequent lessons. It does not seem necessary to close the accounts which show assets or liabilities, excepting at such times as they are balanced by settlement or adjustment, or when forwarding them to another page or to another Ledger. If adjustments are made in an account, it is advisable at that time to rule it up and then bring down the new balance as a beginning for future transactions. When all accounts showing profits and losses are closed into the profit and loss account and the net profit in turn closed into the proprietor's account, or into an undivided profits account, the ledger is said to be closed. When this is completed the ledger will again be in balance, but will contain open accounts only for assets, liabilities, capital and profits. The closing feature is a process of elimination in order to determine the gain or loss, which in turn is either credited or debited to the proprietor's account.

Closing Journal Entries.—When closing the ledger, it is necessary to transfer the gains and losses to the profit and loss account, and sometimes it is necessary to transfer balances or totals of accounts from one page to another. The transfers may be made on the face of the ledger without any supporting journal entries or explanations, but this is not good practice. Every ledger entry should be supported by a full explanation. Consequently closing entries and transfer

entries should always be made in the Journal, and from thence posted to the respective ledger accounts. In this way, every transfer or adjustment entry can be accompanied by details giving reasons for its existence. In some cases the explanation may be very brief. It is advisable, however, to make entries and explanations so clearly that they will be intelligible to others who desire to make reference thereto. Closing entries for the set illustrated in this lesson are shown below.

We shall not close the ledger but simply show the journal entries necessary for closing the various Nominal accounts into Profit and Loss and in turn the Net Profit into the Proprietor's account. The following entries are made on the assumption that the merchandise inventory of \$1850 has been entered on the credit side of the merchandise account, after the purchases and sales have been closed into it. These principles will be more fully exemplified in subsequent lessons. The statements shown are of the simplest kind since they are exhaustively covered in another lesson.

Journal Entries to Close the Ledger.

September 30, 192-

(1) Merchandise	\$2400.00	
To Purchases		\$2400.00
To close Purchases account		
(2) Sales	1200.00	
To Merchandise		1200.00
To close Sales account		
(3) Merchandise	650.00	
To Profit and Loss		650.00
Profit of merchandise transferred to Profit and Loss		
(4) Profit and Loss	410.00	
To Expense		410.00
To close the following accounts per expense ledger:		
Rent	\$50.00	
Office Expenses	60.00	
Advertising	60.00	
General Expenses	40.00	
Salaries	200.00	

Note—This should be posted to the expense ledger also, to close the above accounts therein, with a corresponding debit to General Ledger account.

(5) Profit and Loss	240.00	
To Capital		240.00
To close net profit into the proprietor's account.		

Name of Firm

Statement of Profit and Loss for Month Ended Sept. 30, 192-

	CREDITS	
Sales for month		\$1200.00
	DEBITS	
Purchases for month	\$2400.00	
Less Inventory	1850.00	
Cost of goods sold	550.00	
Rent	50.00	
Office expenses	60.00	
Advertising	60.00	
General expenses	40.00	
Salaries	200.00	
		960.00
Net Profit for month		\$240.00

Name of Firm

Statement of Assets and Liabilities September 30, 192-

ASSETS		
Cash	\$4395.00	
Accounts receivable	545.00	
Notes receivable	500.00	
Merchandise	1850.00	
Total assets		7290.00
LIABILITIES		
Accounts payable	1050.00	
Notes payable	1000.00	
Total liabilities		2050.00
Present Net Worth		5240.00
NET WORTH COMPRISES:		
Investment of	\$5000.00	
Net Profit	240.00	
Total	\$5240.00	

The Journal Simplified.—If the Notes Receivable and Payable Book were kept as a Principal Book the entries for notes received and given would not be recorded in the Journal, but would be posted direct to the accounts of customers and creditors. See illustration of this book and explanations on another page. If postings are made from all principal books direct to the Ledger, it will be seen that the Journal is reduced to the recording of adjusting and cross entries, if any, and monthly totals from the books of original entry. In this way the entire business for the month is summarized in totals in the Journal and presents a view of the month's business. It thus conveys to the proprietor information which is of value to him. It will

be seen that this plan carries the totals of all books into the journal; therefore, the aggregate debits and credits of all journal entries at any particular time should equal the aggregate debits and credits in the ledger accounts. This provides an additional proof of accuracy, but only in case the totals of accounts are taken into the trial balance. If balances are used, it is apparent that the aggregates will be different. If postings of totals are made from books of original entry, then, of course, the summary journal entries will not be needed. Assuming, however, that the postings are made through the Journal, then the transactions for the month, as illustrated in the accompanying set, would appear in the Journal as follows:

Illustrative Journal Entries

In Case all totals are Journalized Monthly

September 30, 192—

(1) Accounts Receivable	\$1,200.00	
To Sales		\$1,200.00
Total sales for the month per		
Sales Book, page—		
Note—The terms Accounts Receivable and Accounts Payable are used in this Illustration in place of Sales Ledger Account and Purchase Ledger Account simply to show a change of wording.		
(2) Purchases	2,400.00	
To Accounts Payable		2,400.00
Total purchases for the month per		
Purchase Book, page—		
(3) Notes Receivable	500.00	
To Accounts Receivable		500.00
Total notes and acceptances received for the month per Bill Book, page—		
(4) Accounts Payable	1,000.00	
To Notes Payable		1,000.00
Total notes and acceptances given for month per Bill Book, page—		
(5) Cash	5,155.00	
To Accounts Receivable		155.00
To General Ledger (or Sundries)		5,000.00
Cash Receipts for month per		
Cash Book, page—		
(6) Accounts Payable	350.00	
Expenses	410.00	
General Ledger	000.00	
To Cash		760.00
Cash Payments for month per		
Cash Book, page—		

When posting the above entries the amount or amounts representing General Ledger should be checked and not posted, since they have already been posted from the Cash Book. When a cash account is kept in the Ledger, only the monthly totals are posted thereto. It will, therefore, show at any time the receipts and payments for

each month, as well as for the entire year up to the end of any particular month. It need not be ruled up until the end of the year.

Omission of Controlling Accounts.—Special ledgers are frequently kept without the use of controlling accounts. This prevents confusion on the part of inexperienced bookkeepers who have trouble in manipulating the controlling accounts and in reconciling the various ledgers. The controlling accounts are frequently omitted even by experienced bookkeepers, in order to save time and to obviate the necessity of making extra entries. The head bookkeeper, however, often keeps a record on separate sheets of the amounts ordinarily required for the controlling account. This enables him to tell at the end of each week or month the amount that should be in the subordinate ledger. For instance, the Accounts Receivable as on June 30, amount to \$62,340.20. At the end of July they are determined as follows:

Balance July 1, 192—	\$62,340.20	
Sales for July	90,425.40	
Journal debits	1,200.00	153,965.60
Cash credits for July	65,280.50	
Journal credits	2,260.40	67,540.90
Balance July 31,		\$86,424.70

This balance is used for completing the monthly trial balance, and should agree with the aggregate accounts receivable in the Sales Ledger. These monthly summaries may be kept on separate sheets, in a special book, or in the trial balance book.

As already explained, only totals are posted to the Controlling accounts, and the balance of such totals (debits and credits) must equal the details of the corresponding special ledger. When preparing the trial balance it is necessary to incorporate therein the aggregate of all accounts appearing in the special ledger, which amount can be supplied by the ledger-keeper. Therefore, since the amount needed to complete the trial balance can be supplied by the assistant bookkeeper (ledger-keeper) it is often deemed advisable not to take the trouble of maintaining controlling accounts. The weakness of this plan lies in the fact that the head bookkeeper is, to some extent, at the mercy of his assistant, since he cannot complete his trial balance until the assistant has summed up his individual accounts. This may take considerable time, and the amount obtained may not agree with the sum required to equalize the trial balance. The question then arises as to whether the head bookkeeper or his assistant erred in procuring results. This difficulty is obviated by the use of controlling accounts, and the assistant knowing that his chief already has the aggregate amount of his ledger accounts is more likely to be careful in adding them. Any change or error, intentional or otherwise, must necessarily result in a difference which can easily be traced by the checking process. Sometimes it is thought advisable not to maintain controlling accounts in the subordinate ledger, in order that the assistants may not be "wise" to the amount required.

Take the Customers' Ledger for example. If the ledger-keeper knows how much the total of customers' accounts should be, as would be disclosed by the controlling account, he might report that amount to his chief without a careful inspection of the accounts. If he does not know, he is more likely to exercise care in adding and listing the amounts knowing that the head bookkeeper is aware of the amount required. We cite this point only as an illustration and not to cast any reflection on assistant bookkeepers.

A Simple Method of Handling Personal Accounts.—Sometimes the Customers' Ledger is kept as an auxiliary book, that is, entirely independent of the General Ledger. When time sales are made, entries are recorded in the accounts of customers in single-entry form, without any corresponding credit to merchandise. When payments are made by customers, such payments are included as part of the "cash sales" for the day in which the payments are received. Credits are recorded, of course, in the individual accounts of customers making the payments. At the time of closing the books, the aggregate of accounts receivable may be included in the inventory as merchandise on hand. As such, it must be entered as a credit to Merchandise account, as if it were a regular inventory, and then brought below the ruling on the opposite (debit) side. Since the merchandise sold has not been so recorded it is presumed to be still on hand. In the case of bad debts, losses are charged to Profit and Loss and credited to Merchandise account. The entire plan is likely to encourage carelessness since there is no check on the ledger, and for that reason should not be used without the exercise of considerable care.

The merchandise account at the end of the first year will appear as follows:

MERCHANDISE ACCOUNT

192-			192-		
Dec. 31	Purchases to date	\$88,900.66	Dec. 31	Sales to date	\$57,894.89
	(details and dates)			(details and dates)	
	Profit and Loss	10,000.00	Dec. 31	Inventories:	
				Merchandise	16,676.17
				Customers' Accounts	24,329.60
		\$98,900.66			\$98,900.66
192-					
Jan. 1	Merchandise on hand	\$16,676.17			
	1 Customers' Accounts	24,329.60			

The Private Ledger.—The Private Ledger contains such accounts as the proprietors desire to keep from the knowledge of the bookkeepers and other employees. It usually includes the accounts necessary to determine the earnings of the business and its financial condition, but the accounts to be selected depend upon the ideas of the proprietor. The accounts usually included are the Capital accounts, Investments, Loans, Profit and Loss, Reserves, Surplus, etc. Sometimes it includes the salary accounts of officers or partners and what-

ever other nominal accounts are to be kept private. This is particularly true in a large business where many bookkeepers are employed and where it is inadvisable for them to have access to private information. The Private Ledger is kept either by one of the proprietors, by an officer of the company, by the chief accountant or the auditor. It frequently contains a lock on the edge which can be opened only by persons having keys thereto. Sometimes a public accountant is engaged to come in monthly or at regular intervals to write up the ledger, take off trial balances, and prepare statements.

When a Private Ledger is used it obviously contains a limited number of the general accounts while the remaining accounts are kept in the General Ledger. It will be seen then that a division is made into two main ledgers, one known as the General Ledger and the other as the Private Ledger. Each of these in turn has a controlling account with the other, and each controlling account will have the same amount as the other. In the Private Ledger there is a "general ledger controlling account," and in the General Ledger there is a "private ledger controlling account." The other controlling accounts for the subordinate ledgers are contained in the General Ledger, which Ledger contains also the remaining Real and Nominal Accounts which are not in the Private Ledger. The General Ledger in this case is the "key" ledger. When a "private ledger" is referred to, however, it does not always mean that it is a division of the general ledger. Frequently the general ledger is spoken of as "private ledger" since it contains the general accounts and is kept by the head bookkeeper, it being accessible only to him and to the officials of the concern. When the ledgers are subdivided it is necessary to have appropriate columns in the Cash Book and Journal in order to care for accounts which occur with sufficient frequency. Sometimes a Private Journal is used in connection with the Private Ledger, in which the entries pertaining thereto are recorded; but it is obvious that amounts placed in the private ledger must also have a corresponding entry in the "general ledger controlling account" in order that the ledgers may be kept in harmony. The General Ledger is sometimes called the "balance ledger" in contradistinction to the Private Ledger, since it contains controlling accounts and balances.

Trial Balance.

In double entry bookkeeping, the debits and credits of the Ledger are supposed to be equal, consequently the Ledger is said to be constantly in balance. A trial balance is made from time to time for the purpose of testing its equilibrium, and it contains a schedule of all accounts remaining open at a particular time. While the trial balance is designed primarily as a ledger test, it serves another purpose also. The items compose a summary of the Ledger accounts, and thereby present in a condensed form amounts which convey considerable information to the proprietor of the business. Instead of having monthly business statements made out, as is frequently the case, the desired information can be obtained from the trial balance. The arrangement of ledger accounts should, of course, be systematic, in order that the accounts showing like results may be in groups. The

same order should obtain in the trial balance as in the ledger, as it will facilitate work at the end of the year when statements and closing entries are being made. It should be taken off at least once a month, if not more frequently, in order to be sure that the Ledger is in balance, but of course the fact that it is in balance does not mean that errors have not been made. It is possible that entries may have been posted to the wrong accounts, that computations have been wrongly made, etc. Sometimes errors are made which offset one another and not detected when making the trial balance. For example, an error on the debit side may be offset by a corresponding error on the credit. As a precautionary measure, frequent checking of entries should be made by the bookkeeper, in order to be sure that the entries are properly made and to the proper accounts. In setting up the trial balance, we have found it advisable to leave occasional lines vacant for the insertion of accounts which may be opened during the year. A similar space is left in the Ledger for the accommodation of tardy arrivals, and of course the corresponding location should be taken. Trial Balance Books may be obtained at the book stationer's ranging in size to meet the needs of any business. They sometimes have a page or two at the back for the recapitulation of totals from the various sheets, in case the trial balance covers several pages. In that case, each page is added and carried separately to this summary. Sometimes the various pages are added together cumulatively, that is, the total from the first page is carried on to the second, the total of the second in turn to the third, and so on. When this plan prevails, however, an error on the first page necessitates an alteration of amounts in all of the subsequent pages. This is obviated, as will be seen, by carrying the total of each page separately to a recapitulation. The totals of the various pages added together give the grand total of the trial balance. This is continued across the page from month to month as shown in the illustration herewith.

Sometimes separate sheets are used for the trial balance, and the various sheets fastened together when it is completed. The names may be printed or typewritten, with space left for the insertion of amounts. In the continued trial balance there are columns, of course, for each month extending over a period of six or twelve months. This is usually the case in the books referred to above. When the Ledger is subdivided, it will be seen that there are fewer accounts in each, in which case the trial balance is not likely to exceed more than one or two pages. The trial balance of each ledger may be made separately on loose sheets, and bound together when completed. As a rule, the balance of personal accounts receivable and payable is added up on the adding machine, and sometimes they are all written down for presentation to the directors. The total of all accounts, for example, in the Sales Ledger should equal the accounts receivable account in the General Ledger. If they do not, then it is apparent that some error has been made which will necessitate further investigation. Where a Safeguard Ledger is used, as illustrated on another page, the trial balance is not necessary. The recapitulation of sheets is shown as follows:

RECAPITULATION OF TRIAL BALANCE SHEETS

Page	January 31, 192-		February 28, 192-		March 31, 192-		April 30, 192-	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
1	98,329.40	116,988.40	92,377.47	111,286.77				
2	43,624.85	39,464.70	59,868.71	70,121.60				
3	74,310.35	26,342.15	63,998.90	32,868.21				
4	52,143.90	82,971.27	59,864.13	93,986.73				
5	39,218.16	41,860.14	67,321.14	52,488.18				
6			17,321.14					
	307,626.66	307,626.66	360,751.49	360,751.49				

Expense Analysis Sheets.

On a separate page of this lesson we stated that the General Ledger accounts should be reduced to as few in number as possible, and that separate ledgers should be used for details of the controlling accounts. This principle is being adopted quite generally where separate details of the sales or administrative expenses are desired, and in many cases Analysis Sheets are used instead of a special ledger. The analysis sheet or book should have at least twelve columns to represent the months of the year, and the names of expense items to be analyzed should be written in the margin at the left hand side of the page. The outlay for expenses is analyzed each month in the column opposite the accounts appended, and the total of the column should equal the total monthly charge to Expense as shown in the general ledger account. This form can be utilized to analyze any account of the ledger whether income or expense, as manufacturing expenses, repairs, maintenance of real estate, income from investments, etc. It is convenient, forms a monthly comparison, reduces the trial balance accounts to a minimum, and obviates the necessity of keeping numerous columns in the cash book. Indeed a special book instead of sheets might be used for the analysis of the various classes of expense accounts, as manufacturing expenses, selling expenses, and administrative expenses.

It is not uncommon to have ledger accounts divided into several columns for the separation of items contained therein, in which case the account would be ruled and columns headed as shown in the accompanying analysis sheet. Such an account, however, would show the separate items charged up daily or weekly, while the sheet shown herewith contains only monthly totals to each separate account. The Expense Ledger shown in the illustrative set could be omitted and analysis sheets substituted, or else the Expense account itself divided into columns.

In case the cumulative amount of expenses is desired from month to month, extra columns are required to show the aggregate expenses

up to and including any particular month of the year. This is a most desirable plan, and requires a book or sheet of at least 24 columns. See illustration below.

Sometimes a slightly different plan is used, but with the same kind of ruled sheets. It consists in heading the columns with the various expense accounts to be analyzed and in using the left-hand margin for the twelve calendar months. This plan can be made cumulative also by using every second horizontal line for cumulative totals. Herewith is an illustration of an Expense account as it appears in the General Ledger, and the Analysis Sheet showing items therefrom for three successive months.

Expense Account

(The analysis sheet is shown below.)

192-		
Jan. 31	Cash	\$350.50
Jan. 31	Sundries, J.	30.20
Feb. 28	Cash	385.10
Mar. 31	Cash	352.60
Mar. 31	Sundries, J.	23.90
		<hr/>
		\$1142.30

Expense Analysis Sheet

Monthly Analysis of General Expense Account (page—).

192-

Accounts	Jan.	Feb.	Total to Date	March	Total to Date	April	Total to Date
Advertising	30.00	50.50	80.50	35.00	115.50		
Heat and Light	10.60	15.80	26.40	19.75	46.15		
Dues and Subscriptions	25.00	5.00	30.00	10.00	40.00		
Insurance and Taxes	82.40	35.00	117.40	15.00	132.40		
Expenses, Office	12.25	32.45	44.70	26.10	70.80		
Rent	100.00	100.00	200.00	100.00	300.00		
Printing and Stationery	10.45	23.85	34.30	36.90	71.20		
Postage	10.00	12.50	22.50	8.75	31.25		
Salaries	100.00	110.00	210.00	125.00	335.00		
Total	\$380.70	\$385.10	\$765.80	\$376.50	\$1,142.30		

NOTE.—Regular rulings for dollars and cents columns are usually contained on the prepared sheets. They can be kept in a binder to good advantage. The account is on page — of the general ledger.

The use of analysis sheets can be applied in almost any line of business, and they are especially useful in a manufacturing establishment wherein the analyses of costs are desirable. Indeed its use can be extended to any part of the business, and particularly to dividing manufacturing, selling and administrative charges; it can be used to advantage also in separating items of charge or of credit among various departments. Sometimes a separate analysis sheet is made out for each month. In this case it would be preferable to head the columns with the departments or accounts, and then to show the items and dates on the left-hand margin. It is not unusual to find comprehensive analysis sheets made to order and with printed headings for the various accounts. They may contain from ten to thirty columns, and are usually placed in a loose-leaf binder. Each sheet should be numbered, and prominently headed to show the month and year to which it belongs.

The Classification of Accounts

The fact that a set of books shows the exact condition of the business is not sufficient. They must be logically planned and kept, and the ledger should be so arranged as to exhibit the business records in proper sequence. The space in a bound ledger should be properly apportioned, and each class of accounts given a definite location, so that it will not be possible for any account to be overlooked. Accounts of a like nature should always be grouped together.

We therefore give a plan for the arrangement of ledger accounts which may be adapted to the needs of any business, whether large or small. This order is not always followed, but whatever plan is used it should be logical and then followed out systematically. Some accountants begin with fixed assets and end with current assets or cash, while others follow the reverse order, beginning with those most readily available and ending with the least available. The liabilities then follow in succession, but in like order with the assets. Many prefer to have the capital accounts at the beginning of the ledger, while others list them with the liabilities. The nominal or profit and loss accounts generally follow the assets and liabilities and in turn should be logically arranged. The Balance Sheet and the statement of Profits and Losses should also be arranged in a logical manner similar to the plan followed in the Ledger, and the Trial Balance should exhibit a like arrangement.

How to Arrange Ledger Accounts.

By means of the several accounts, the Ledger furnishes a condensed summary of the business and represents as the "principal book" all other books which contribute to the history of the transactions.

The kind of accounts suited to the needs of the business should be determined first, then classified and arranged in the ledger in a logical manner; and unless the ledger is loose-leaf the number of pages needed for each account should be decided upon and left blank, depending of course upon the number of years it is designed to last. It is advisable to leave a few pages between groups for the accommo-

dation of new accounts. The trial balance should make like provision for the listing of tardy arrivals.

The ledger accounts may be classified into three general groups and in the following order: Capital, Real, and Nominal accounts. The Real accounts are also known as Balance Sheet Accounts, and the Nominal as Profit and Loss Accounts. The outlines which follow are taken from actual business ledgers, and may be expanded or condensed to suit individual needs, so long as the general groups are maintained.

1. Capital Accounts.—For a single proprietor the Capital account should be opened first, followed by the Private or Withdrawal account.

For two or more proprietors separate Capital accounts should be opened successively, followed by the Private or Withdrawal account of each.

For a corporation or stock company the Capital account should be opened first, followed successively by Unsubscribed Stock, Surplus, Undivided Profits, Dividends Payable, etc.

2. Real Accounts.—This section of the ledger may be divided into three parts for further convenience, in the following order: (1) Stocks and Bonds (or other "securities"); Bills and Notes Receivable; Furniture and Fixtures; Real Estate; Bills Payable and Mortgages Payable. (2) Sales Ledger Controlling Account, containing Book Accounts Receivable. (3) Purchase Ledger Controlling Account, containing Book Accounts Payable. If all personal accounts are placed in the Ledger they should follow the Nominal Accounts, then the Controlling accounts would be omitted.

3. Nominal Accounts.—To show income and expenses incident to a retail or jobbing business, open ledger accounts after the following order: Merchandise Sales; Allowances on Sales (including cash discounts if desired); Freight and Cartage outbound; Merchandise (Inventory); Merchandise Purchases (including cash discount if desired); Freight and Cartage inbound; Advertising; Salesmen's Salaries and Commissions; Sales Expenses; Insurance; Real Estate expenses; Office Salaries; Office Supplies; Office Expenses. The foregoing accounts up to and including sales expenses may be closed into the Merchandise Account or a Trading Account, and when such is used it follows them in the ledger.

Discount and Interest (bank discount and use of money); Management Expenses and Bad Debts follow in order, and Merchandise Account (or Trading Account, when used) are closed directly into Profit and Loss Account, which should include the group of Nominal accounts. Sometimes the Profit and Loss account follows the Capital group.

In a manufacturing business it is necessary to open an account for Material, Supplies, Factory Wages or Labor, Factory Expenses, and kindred charges. These accounts should be closed into Manufacturing Account, and should precede the accounts which comprise the Trading Account. Manufacturing Account when used closes into Trading Account.

Suggested Arrangement of Ledger Accounts

Group 1. Capital Accounts:

(a)	{ Individual or Partnership	Capital Account (each proprietor)
		Withdrawal Account (each proprietor)
(b)	{ Corporation or Stock Company	Capital Stock
		Unsubscribed Stock
		Surplus
		Undivided Profits
		Dividends Payable

Group 2. Real Accounts:

(a) Assets	{	Real Estate
		Plant and Machinery
		Furniture and Fixtures, etc.
		Stocks and Bonds or other securities
		Bills Receivable
		Sales Ledger Controlling Account
(b) Liabilities	{	Bills Payable
		Purchase Ledger Controlling Account
		Mortgage Payable

Group 3. Nominal Accounts:

(a) Manufacturing Accounts (if used)	{	Material
		Supplies
		Factory Wages
		Factory Expenses and kindred charges
(b) Trading Accounts	{	Manufacturing Account
		Sales Account
		Allowances on Sales (including cash discounts)
		Freight and Cartage outbound
		Merchandise (Inventory)
		Purchases Account
		Allowances on Purchases (including cash discounts)
		Freight and Cartage inbound
		Advertising
		Salesmen's Salaries and Commissions
		Sales Expenses
		Insurance (exclusive of Real Estate)
		Real Estate Expenses (taxes, water rates, insurance, interest on mortgage, and repairs)
(c) Profit and Loss Accounts	{	Office Salaries
		Office Supplies
		Office Expenses
		Trading Account
		Discount and Interest (bank discount and use of money)
		Management
		Bad Debts
		Loss and Gain Account (or Profit and Loss)

If the personal accounts with customers and creditors are to be kept in the General Ledger, they should be shown in the concluding part of the book, leaving as many pages as may seem necessary for each group. The Accounts Receivable may be placed near the center of the Ledger; these may be followed by the Accounts Payable, leaving enough pages for new accounts with customers.

ARRANGEMENT OF LEDGER ACCOUNTS

For a Mercantile Establishment.

This outline is made up as an illustration, but could be extended or reduced. It might even be changed materially by the shifting of accounts from one section to another, or by a greater division of headings.

<i>Capital and Net Worth:</i>	Accrued Interest, specified
Capital Stock, Common	Accrued taxes
Capital Stock, Preferred	Accrued rates, etc.
	Dividends
Unsubscribed Stock	Other liabilities
Treasury Stock	
Subscriptions	<i>Reserve Accounts:</i>
Surplus	Reserve for Sinking Fund, if any
Undivided Profits	Reserve for Depreciation
Profit and Loss	(one for each kind of property)
	Reserve for discounts
	Reserve for bad debts
	Reserve for expenses, etc.
<i>Fixed Assets:</i>	<i>Earnings:</i>
Land	Sales of merchandise
Buildings and Equipment	Income from investments
Furniture and Fixtures	Income from rentals, if any
Delivery Equipment	Discount on purchases
Office Equipment	Other Income
Interior Alterations	
Goodwill	
Sinking Fund, if any	
<i>Current Assets:</i>	<i>Cost and Selling Expenses:</i>
Petty Cash Fund	Purchases
Cash in Bank	Freight inbound
Accounts receivable	Freight outbound
Notes receivable	Shipping and delivery expenses
C. O. D. Accounts	Salaries of salesmen
Will Call Accounts	Salaries of clerks
Approval Accounts	Traveling expenses
Inventories	Commissions to agents
Consignments, Agents or Branches	Advertising
Investments, Securities, etc.	Postage and supplies
	Portion of delivery expenses
	Miscellaneous
<i>Deferred Charges to Operating:</i>	Returns, rebates, allowances
Incorporating expenses, if any	
Interest prepaid	<i>General and Administrative Expenses:</i>
Insurance premiums prepaid	General expenses
Salaries advanced	Office expenses
Advertising prepaid	Legal expenses
Office supplies	Salaries to officers
Stable Supplies	Salaries of office help
	Rent, if necessary
<i>Fixed Liabilities:</i>	Repairs and maintenance of property
Bonds payable	owned
Mortgages	Insurance premiums
Other long time loans	Depreciation of properties
	Interest and discount
<i>Current Liabilities:</i>	Telegraph and telephone
Accounts payable	Heat, light, etc.
Notes payable	Membership and subscriptions
Agents or branches	Bad debts
Accrued pay roll	Donations and charity
Accrued salaries	Miscellaneous

CHART OF ACCOUNTS

Used by a small Department Store.

Note the terms used and the order in which accounts are placed. Current cash means undeposited cash. The accounts are numbered, but this does not necessarily mean the pages, unless the loose-leaf ledger is used. Apparently no division is made between the general and trading expenses, at least in this trial balance.

<i>Accounts Showing Assets:</i>	Acct. No.	E-Boots and Shoes	Acct. No.
<i>Cash:</i>		F-Cloaks and Suits	
Imprest Funds	1	<i>Revenue from Other Sources:</i>	
Current Cash	2	Discounts and Purchases	
Bank Accounts	3	Interest Earned	
<i>Notes Receivable:</i>	4	Miscellaneous Earnings	
<i>Accounts Receivable:</i>		<i>General and Trading Expenses:</i>	
Charge Customers	5	Advertising—Contracts	
C. O. D.'s	6	Advertising Miscellaneous	
Will Calls	7	Bad Debts and Collection Charges	
Approvals	8	Bank Exchange	
Charity	9	Cash Discounts Allowed	
Employees	10	Cash Shorts	
Sundry Debtors	11	Car Fares, Lunches, etc.	
<i>Merchandise Stocks:</i>		Charities and Donations	
A-Men's	12	Commercial Agency Subscriptions	
B-Boys'	13	Collection Expense	
C-Furnishings	14	Delivery Service	
D-Hats and Caps	15	Departmental Sundries	
E-Boots and Shoes	16	Depreciation of Furniture and Fix-	
F-Cloaks and Suits	17	tures	
<i>Furniture and Fixtures:</i>		Depreciation of Improvements	
General Stores	18	Deflation of Merchandise Stock	
New Cloak Department	19	Elevator Service	
<i>Deferred Expenses, Prepaid:</i>	20	Freight, Express and Cartage—"In"	
Total Assets		Freight, Express and Cartage—"Out"	
<i>Liabilities and Capital:</i>		Heat, Light and Power	
Accrued Expenses Unpaid:	21	Incidentals	
Accrued Salaries and Labor:	22	Insurance	
Notes Payable:	23	Interest in Advance	
Notes Receivable—Discounted:	24	Interest Accrued	
<i>Accounts Payable:</i>		Legal Expenses	
Purchase Creditors	25	Membership and Dues	
Sundry Creditors	26	Messenger Service	
Proprietor, Special	27	Office Supplies and Expenses	
<i>Reserves:</i>	28	Postage	
<i>Loss and Gain:</i>		Premiums and Commissions	
This Month	29	Rebates and Allowances	
To the First of this Month	30	Rent	
<i>Dividends:</i>		Repairs to Buildings	
<i>Impairment and Surplus:</i>	32	Repairs and Renewals to Furniture,	
<i>Capital Stock:</i>	33	etc.	
Total Liabilities		Salaries of Office	
<i>Revenue from Sales:</i>		Salaries of Officers	
A-Men's		Salaries of Salespeople	
B-Boys		Special Expense	
C-Furnishings		Stationery and Printing	
D-Hats and Caps		Taxes	
		Telephone and Telegrams	
		Trading Stamps	
		Traveling Expenses	
		Work Account	
		Wrapping Paper, Twine, etc.	

SCHEDULE OF ACCOUNTS

For a Manufacturing Company.

The numbers at the left indicate the pages on which the accounts are contained. Note that some of the accounts are given more than one page, and that several pages are left between some of the groupings for the addition of new accounts when necessary.

Permanent Accounts

Folio

- 1 Real Estate & Buildings
- 3 Machinery & Fixtures
- 5 Boilers & Engines
- 7 Tools
- 9 Trade Marks, Patents, Goodwill, etc.
- 10 Office Furniture and Fixtures

Capital Stock Accounts

- 12 Preferred Stock
- 13 Common Stock

Contingent Accounts

- 14 Organization Expenses
- 15 Subscription Account (Preferred Stock)
- 16 Depreciation Account

Current Liability Accounts

- 18 Audited Accounts Payable
- 21 Bills Payable
- 24 Open (Creditor) Accounts
- 43 Dividends (Preferred Stock)
- 46 Accruing Taxes

Current Asset Accounts

- 54 Cash
- 55 Bills Receivable
- 56 Contingent Fund
- 57 Open (Debtor) Accounts
- 132 Sundry Accounts Receivable

Stock Accounts

- 137 Manufactured Stock
- 134 Stock in Process of Manufacture
- 141 Unmanufactured Stock
- 143 Stationery Supplies Stock
- 145 Factory Supplies Stock
- 147 Fuel

Labor Accounts

Folio

- 154 Machine Shop
- 156 Wood-Working Shop
- 158 Condensor Shop
- 160 Winding
- 162 Electro-Plating Shop
- 164 Assembling Room
- 166 Miscellaneous

Deferred Accounts

- 170 Prepaid Expenses
- 172 Prepaid Interest
- 174 Prepaid Insurance
- 175 Prepaid Taxes

General Accounts

- 178 Profit and Loss
- 180 Surplus and Undivided Profits
- 181 Sales Account

General Factory Accounts

- 185 Repairs and Renewals
- 187 Real Estate Expenses
- 189 General Factory Expenses
- 191 Expired Insurance
- 193 Expired Taxes
- 195 Teaming Expenses

General Office Accounts

- 200 Officers' Salaries
- 202 Clerks' Salaries
- 204 Traveling Expenses
- 205 Legal Expenses
- 207 Postage, Stationery and Printing
- 209 General Expenses
- 211 Interest
- 212 Advertising
- 206 General Taxes

ENTRIES FOR NOTES AND ACCEPTANCES

Notes Receivable Discounted.

Question—Explain how you would treat Notes Discounted in the books of a Wholesale Merchant. They include the notes in favor of the merchant, which have been discounted at the bank.

Answer—A special account called Notes Discounted is sometimes opened by means of which can be shown the total amount of notes and acceptances under discount at any time. For instance, suppos-

ing six notes of \$100, \$200, \$300, \$400, \$500, and \$600, respectively have been received. Notes Receivable account would be debited in the usual way for the \$2100. We will now discount notes 2, 3, 4, and 5, making a total of \$1400 discounted; assuming the discount to be \$12, and the proceeds left to our credit, the entry would be

Interest and Discount	\$12.00
Bank or Cash	1388.00
To Notes Discounted	\$1400.00
(Full explanation must be given.)	

It will be seen that the actual amount of notes in our possession is the total of the Notes Receivable less the credit balance of Notes Discounted, which leaves \$700. Whenever any of the discounted notes is paid it means that the banker receives the amount due and the maker gets back his note; so far as we are concerned the transactions have the effect of lessening the ledger assets and decreasing the ledger liabilities by the same amount. Supposing then that notes 3 and 5 were paid the entry would be

Notes Discounted	\$800.00
To Notes Receivable	\$800.00
(Full explanation here)	

It will be noted that up to this time these notes appeared on our Ledger as an asset, but were offset by the liability shown under the name of Notes Discounted. The difference between the two sides of Notes Discounted account now shows \$600, which is the amount of notes still under discount; deducting the \$600 from the \$1300 gives \$700 which is the total amount of notes actually on hand consisting of Nos. 1 and 6, amounting to \$100 and \$600 respectively. In this way the wholesaler is able to tell at any time the amount of his indirect liability on notes discounted. When preparing annual statements it is best to show the total notes receivable, then from this total deduct the amount of notes under discount at the bank. The balance will be the aggregate amount of notes receivable still on hand, as shown in the illustration herewith. Since the plan of handling notes receivable discounted herein described involves considerable work in journalizing, there is some objection to its use. As an alternative the notes receivable book could be made to exhibit this information with very little extra work, but in some way to prevent this contingent liability being overlooked.

Notes Receivable

Debit with:—

- (a) Notes and acceptances when paid, face value, either in our favor or transferred to us by endorsement.

Credit with:—

- (b) Notes and acceptances, at face value, when paid in full or in part.
- (c) Notes discounted at bank, when paid at maturity.
- (d) Notes transferred to others, when paid at maturity.
- (e) Notes and acceptances cancelled or transferred to overdue account.

Notes Receivable Discounted

Debit with:—

(a) Notes and acceptances when paid, that have been previously credited to this account.

Credit with:—

(a) Notes and acceptances discounted at bank.

(b) Notes sold or transferred to others.

Notes receivable transferred by indorsement to creditors to apply on account should be included as notes receivable discounted, since the contingent liability thereon is the same as in notes discounted at the bank. If however a note is transferred and indorsed "without recourse" it should not be included in the account for notes discounted since there is no further liability thereon. In this case the indorser guarantees that the note is genuine, but does not guarantee its payment.

When preparing the Balance Sheet there are two ways of showing the notes discounted. One way is to include them with the liabilities, while the total notes receivable appear among the assets. Another is to show them only among the assets as a deduction from the aggregate notes receivable. The following brief balance sheets are used to illustrate the two methods of handling the discounted notes which are still unpaid, after the two for \$300 and \$500 were paid. Notes Receivable account now has a debit of \$1300 and Notes Discounted a credit of \$600.

Balance Sheet, December 31, 192-

(Showing the manner of listing notes under discount)

Cash	\$4200.00	Accounts payable	\$15607.10
Accounts receivable	11392.60	Notes payable	7000.00
Notes receivable	1300.00	Notes receivable discounted	600.00
Merchandise	26814.50	Capital	25000.00
Fixtures	4500.00		
	<u>\$48207.10</u>		<u>\$48207.10</u>

Balance Sheet, December 31, 192-

(Another way of showing notes receivable discounted)

Cash	\$4200.00	Accounts payable	\$15607.10
Accounts receivable	11392.60	Notes payable	7000.00
Notes receivable	\$1300	Capital	25000.00
Less notes under discount	600		
	<u>700.00</u>		
Merchandise	26814.50		
Fixtures	4500.00		
	<u>\$47607.10</u>		<u>\$47607.10</u>

Note—Sometimes only a foot note is made on the balance sheet, calling attention to the amount of notes receivable under discount at

the bank. Since they are a contingent liability they should, of course, be shown somewhere and this plan brings them to the attention of the management.

Acceptances.—Acceptances have reference exclusively to drafts or bills of exchange that have been made by us or to us, whether two-party or three-party. A draft is "accepted," as the reader already knows, by writing across the face thereof the words Accepted and date, accompanied by the signature of the drawee. If it is drawn in our favor and "accepted" we debit Notes Receivable, or Bills Receivable, and credit the Drawer or person from whom received. If "accepted" by us we debit the Drawer because he has made a demand upon us and credit Notes Payable or Bills Payable. Since the use of notes is more extensive than drafts, both are usually included in the same account.

Dishonored and Overdue Notes.—Notes dishonored by non-payment should be looked after carefully and removed from the Notes Receivable account. It is not unusual to find overdue notes especially in concerns which handle a great many promissory notes made by good customers. When they are past due an entry should be made as follows:

Notes Receivable Overdue.
To Notes Receivable.

This procedure recognizes correct classifications of items and the division of notes into good, past due, etc. Overdue notes should of course either be renewed or adjusted in some way in order to more effectively impress upon the maker the necessity of definitely deciding upon a date for payment. By right, dishonored notes should be charged back to the maker's account along with all charges for interest, expenses and protest fees. If it had already been discounted at the bank and had to be lifted by you, the following entries would be made on your books:

1. Customer
To Cash, or Bank
2. Notes Receivable Discounted
To Notes Receivable

Notes of Directors and Employees.—Notes of directors, officers, stockholders and employees which do not represent actual business transactions, should be kept separate from the regular commercial paper received from customers. A separate account for Special Notes Receivable might be opened, though of course there is no serious objection to keeping them all in the regular notes receivable account. If they are all kept together, regular reports should be made to the directors exhibiting the special notes receivable and the names of the makers in a schedule, separate from notes of customers. This may be applied also to notes payable that have been given to other than regular trade creditors. The main object is to provide an accounting system which will exhibit true conditions by having separate accounts

for special items. There has been too great a tendency in the past to dump many dissimilar items into one account.

Selected Examination Questions, With Answers

The following questions are taken mostly from C. P. A. examinations of different states. We give answers for the benefit of students, but it is advisable for you to provide your own answers before consulting these.

Question 1.—Significance of Debit and Credit Items.

(a) What may the placing of an item on the debit side of a ledger account represent?

(b) What may the placing of an item on the credit side of the ledger account represent?

Answer.

(a) There are four main divisions of accounts, losses, gains, assets, liabilities, so that an entry of any kind will affect either of these divisions. An amount placed on the debit side of a ledger account, then, represents according to the class it belongs to:

An asset, thereby increasing the assets.

An expense, thereby increasing the losses with a corresponding decrease of the profits.

It may be a production charge, thereby increasing the cost of producing a given article resulting in an increase in assets.

It may be a cancellation, the settlement or cancellation of some liability. A cancelling entry of this kind has only a neutralizing effect without causing any corresponding change in the capital or profits.

(b) An entry placed on the credit side of a ledger account represents according to the class it belongs to:

A liability, thereby increasing the liabilities.

A revenue, thereby increasing the income or earnings of the business with a corresponding increase in the profits. Any increase in profits produces, of course, a like increase of the capital.

A cancellation, being settlement or cancellation of some asset in the form of notes or accounts receivable. It may represent the disposal of some asset, and in case any profit is occasioned in connection therewith, it is evident that both classes of accounts become affected.

Question 2.—Entries for Notes Receivable Discounted.

In looking over the accounts of a firm you find that practically all of their Accounts Receivable had been paid, a large part of the settlements being by customers' notes. The Bills Receivable Account was in balance, but reference to the Bills Receivable Record showed that about \$27,000 was being carried by the banks on this company's endorsement. You suggested to the proprietor that his book should at all times state the amount of such paper not due and unpaid for which he was responsible as endorser. State fully the method you would

suggest showing all entries necessary from the first receipt of a note until it was finally paid, when:

- It is paid by the maker at maturity.
- It is partially paid at maturity and a new note given for the balance.
- It is protested for non-payment at maturity.
- It is taken up, with a new note of the same amount, with interest added, at maturity.

Answer.

Notes under discount at the bank are always indorsed by the payee and he is liable on them until paid by the maker. This is known as a contingent liability, and in the present case where it amounts to \$27,000 some plan should be adopted whereby details thereof will be constantly before the person liable thereon. In most cases they are shown only as a part of the regular report or as a footnote to the monthly or yearly balance sheet. If they are to be kept separately, the following plan is suggested:

- When the note is received, the usual entry is made:
 Notes Receivable\$1000.00
 To Customer\$1000.00
- When discounted at the bank this entry:
 Cash990.00
 Discount10.00
 To Notes Discounted1000.00

The following entries cover conditions suggested in the question.

- When paid by the maker at maturity:
 Notes Discounted1000.00
 To Notes Receivable1000.00
- When paid part in cash and part by new note:
 - Notes Discounted1000.00
 To Notes Receivable1000.00
 - Customer500.00
 To Cash500.00
 - Notes Receivable500.00
 To Customer500.00
- Protested at maturity for non-payment, fees added:
 - Customer1001.50
 To Cash1001.50
 - Notes Discounted1000.00
 To Notes Receivable1000.00
- Taken up with new note at maturity with interest added:
 - Customer1000.00
 To Cash1000.00
 - Notes Discounted1000.00
 To Notes Receivable1000.00
 - Notes Receivable1010.00
 To Customer1000.00
 To Interest10.00

On this plan the notes discounted account will exhibit at any time the contingent liabilities on discounted notes, and the due date of each should be shown therein. In the above entries the renewal notes are not discounted yet, but if they are, the usual process will be followed. The balance sheet may show aggregate notes receivable among the assets, or the notes discounted as a deduction from the notes receivable. Since the above plan requires so many journal entries, it may be advisable to provide columns in the notes receivable book for exhibiting the notes under discount, and all other information pertaining to them.

Question 3.—Entries when Special Ledger Controlling Accounts are used.

A customer paid his bill of \$842.30 by check less 2% discount. What entry?

Answer.

Enter total \$842.30 in the accounts receivable column in the cash book, and the \$16.85 in the discount column; enter the balance in the "net cash" column. Post the total to the customer's account in the sales ledger. Sometimes no record of the discount is placed in the customer's account, while again it is only in the margin. Many accountants post the net cash and the discount separately to the ledger accounts in order that the complete details may be recorded. Referring to the cash book, the total of the accounts receivable column will be posted to the credit of that account in the general ledger, and to the debit of general ledger account in the sales ledger. If the accounts receivable column records only the net cash, then the "net cash" column is omitted. This is a good plan, in which case the totals of both accounts receivable and discount columns are posted to the general ledger.

Question 4.—Returns and Allowances.

A customer is allowed \$10.38 for damaged goods and credit memorandum is issued to him. What entry?

Answer.

Enter in the journal. Debit rebates and allowances account and all credit accounts receivable in the special column. Go to the sales ledger and credit the customer for the amount. The total of the column will be posted at the end of the month to the controlling account in the general and sales ledgers. Returned goods are either entered in a special book for that purpose, or in a part of the sales book set apart for such entries. If they are infrequent, entries through the journal will be sufficient.

Review Questions, (Lesson 1.)

These review questions are not to be sent in, but are to be carefully answered in writing or otherwise by the student for his own benefit. We will gladly answer any that are not fully understood, but before consulting us, the student should satisfy himself that he is unable to provide or find an answer.

1. Define Bookkeeping, Accounting, Auditing.

2. How does the work of an accountant differ from that of an auditor?
3. What is a self-balancing ledger and its object?
4. Explain the method of handling at least five different subordinate ledgers.
5. What is a foreign ledger?
6. Which do you prefer for a customers' ledger, a bound book, loose-leaf or card? Why?
7. What is the object of having a ledger ruled with three columns at the right-hand side of the page?
8. How do you distinguish between a Private and a General Ledger?
9. What is a Controlling account and how maintained?
10. Should the corresponding Controlling accounts in the General and Sales ledgers contain the same amounts?
11. If the sales ledgers are subdivided alphabetically, is it necessary to have a Controlling account for each in the General Ledger?
12. How may the Controlling accounts be omitted without impairing the harmony which exists between the ledgers in which they are used?
13. If several bookkeepers are employed, how is the work performed by them arranged at the end of the day or month?
14. How is a Trial Balance taken of a Sales ledger which contains one thousand accounts?
15. It is said that by the use of Controlling accounts errors can be localized and found more readily than without the controlling principle. Explain how this can be done.
16. Give other names for Sales ledger and for Purchase ledger.
17. What is gained by using an Expense Ledger?
18. What is an Expense Analysis Sheet?
19. Of what use is the Journal in modern bookkeeping?
20. Should the totals of Sales and Purchases be posted from their respective books, or be entered through the Journal as shown in the illustration herewith?
21. What is gained by having such totals entered through the Journal?
22. How is the Bill Book kept as a Principal Book? Give another name for this book.
23. Is there any disadvantage in keeping it as a principal book rather than as an auxiliary?
24. When it is kept as a principal book, how are postings made from it?
25. Name the Classes of accounts, and state what each class contains.
26. Give a logical rule for Journalizing.
27. What is a debit? What effect does it have on the business?
28. What is a credit? What effect does it have on the business?
29. What is a Stated account? A Negative account? A Suspense account?

30. What does the proprietor's Investment account contain? His personal account?
31. Name the different forms of ledger-account rulings, and state the merits of each.
32. What are the different kinds of ledgers now in use? Mention the merits of each.
33. Many accountants close the ledger by means of journal entries. What are the advantages of this plan over that of making all transfers in the ledger without such entries?
34. What steps should be taken to locate the error in case the trial balance will not balance?
35. Are you familiar with loose-leaf and card ledger systems? Have you examined the forms and advertisements contained in the advertising columns of magazines? Have you visited a stationer's for the purpose of inspecting such devices?
36. Are you neat, careful and accurate in all your work? You cannot afford to be otherwise.

EXAMINATION, LESSON 1.

How To Submit Answers.—Always do your best work, and do not send in anything that is not neat, accurate and well-arranged. The accountant cannot afford to do otherwise. Write neatly, using typewriter if desired. Do not crowd the work too much, leave margin at left-hand side of page, and by all means do not try to put too many forms or exhibits on one page. Rule neatly with colored inks and ruler. Have prominent headings to all forms, statements, etc., and never omit the date or year. Number each answer but do not repeat the question. Have your name and address, class letters, and number of lesson at top of page 1, and name at the top of each succeeding page. Page the sheets and have them follow in regular order. Journal and Ledger paper may be used, or any other paper already ruled up. Place your name and address on the outside of the envelope, and be careful to put on sufficient postage.

Consult us when in need of assistance, but be sure that you have given the point a good trial before seeking advice. Inquiries and questions should be on a separate sheet containing your name and address, and class letters.

Written Answers to be Sent In:—

1. Do you understand all the Review Questions of this lesson?
2. Explain the different classes of accounts. Contrast and distinguish between the work of the accountant, auditor and bookkeeper.
3. Give a schedule of the accounts contained in the ledger of your company, or of some other company with which you are familiar. If you deem improvements advisable, then submit what you consider the correct arrangement.
4. Explain briefly the functions of each of the following ledgers:
 - (a) General Ledger,
 - (b) Purchase Ledger,
 - (c) Sales Ledger,
 - (d) Expense Ledger,

- (e) Expense Analysis Sheet.
 - (f) Rule up an expense analysis sheet for items shown in the accompanying illustrated set.
5. When several ledgers are kept, how is the accuracy of each ledger determined? In case of errors how are they located?
6. How may the Bill Book be kept as a "principal" book? What advantage has this plan over the ordinary?
7. The following errors are found in a set of books: (1) omitted to charge Smith from the Sales Book with \$132; (2) neglected to record a bill for repairing received from A. Brown, \$35; (3) posted interest, \$13.80, which was allowed to a customer, to the wrong side on Interest account; (4) neglected to bring down the inventory of \$212.50, consisting of unexpired insurance, in the Expense account; (5) in carrying forward a balance of \$250, of Bills Receivable, it was placed on the wrong side of the account; (6) posted a purchase of \$84.60 to the wrong side of King's account; (7) a shortage of cash, \$3.80, was recorded in the Cash Book, but posted to the wrong side of Over and Short Book account; (8) a payment to Lark of \$85 was placed on the wrong side of the Cash Book and credited to his account; (9) a rebate of \$216 received from Hall, was correctly journalized, but posted as \$2.16 to the wrong side of the Discount account. Which side of the Ledger is the larger, and how much? How should each error be corrected?

8. Set to be worked:

Enter up the following transactions in the various books, using General, Sales, Purchase, and Expense Ledgers, Sales Book, Purchase Book, Cash Book (with columns for Sales Ledger, Purchase Ledger, Expenses) Bill Book (auxiliary), Columnar Journal, and Trial Balance. Open Expense Ledger accounts for rent, office expense, general expense, insurance, salaries, advertising, fuel.

January 1, 192 —You began business in partnership with George Dunning. You invested cash \$2000, balance in bank \$500, merchandise \$2000, account of J. W. King \$98.80, of David Long for \$201.20, and a thirty-day note from Thomas Green for \$200 due on January 10th.

Dunning invests cash to equal your investment. Paid rent of store one month \$100, and office expenses \$40.60.

January 3—Bought of T. Williams on account merchandise \$800, and of A. Scott on account \$1000. Sold merchandise to R. Green on account \$340, and to W. Jackson for \$480, on which you received his twelve-day note for \$250.

January 5—Paid for insurance premium on merchandise \$15.20, and for general expenses \$14.50. Sold merchandise to William Brown on account \$500, and received in part payment cash \$200. Cash Sales \$110. Bought of R. W. Gray merchandise \$600, and gave on account for same your thirty-day note for \$500.

January 10—Gave T. Williams on account cash \$500, and W. A. Scott your sight draft on R. Green for \$300. Paid salaries \$320, office expenses \$16.90, and for advertising bills \$60.60. Sales as fol-

lows: to A. B. Eaton on account \$900, and to R. Green on account \$500. Cash sales \$140. Received cash for note due today.

January 12—Bought of M. J. Sawyer on account merchandise \$1200, and of John Wanamaker \$990. Accepted Sawyer's 20-day draft in favor of Crandle & Blair for \$500. Gave Wanamaker cash \$400. Paid cash for fuel \$75, and for general expenses \$35.

January 15—Received cash for note due today, and from William Brown \$100. You drew for personal use cash \$200, and Dunning \$200. Paid office expenses \$30. Sales to J. W. King on account \$620, at which time he paid his old account; and to W. Jackson on account \$1200, on account of which he paid cash \$700. Cash sales \$190.80.

January 20—Bought of Gordon & Keating on account merchandise \$1500. Gave in part payment your note at 30 days for \$1000. Paid \$400 for furniture bought of Jones Bros. on the 1st., invoice of which has just been received. Paid R. W. Gray balance in full of account.

January 25—Received check from David Long for \$250, with a letter stating that he would send in another order soon. Received a check for \$5, rebate on advertising bills paid on the 10th. Received from A. B. Eaton a 60-day note for \$500 in his favor made by John Hannon, less discount to maturity, 30 days, \$2.50.

January 30—Paid salaries \$425, office expenses \$15.65, and advertising \$20.

Close the ledger by journal entries and determine the net gain or loss. Prepare Statement of Losses and Gains, and of Assets and Liabilities. *Inventory*.—Merchandise at cost—\$4500; Furniture less \$20 for depreciation.

Note—When submitting the set for inspection, place the financial statements on top of the set for ready reference.

Review Questions, (Lesson 2.)

These review questions are not to be sent in but are to be carefully answered in writing by the student for his own benefit. We will gladly answer any that are not fully understood, but before consulting us you should satisfy yourself that you are unable to provide or find an answer. This gives you an opportunity to determine whether or not you understand the lesson. If you do not, further study is needed.

1. In case the trial balance of the general ledger does not balance, what steps should be taken to locate the error?
2. Why should the accounts of the trial balance be in the same order as the accounts in the ledger?
3. How can the trial balance be made to exhibit information that is of special interest to the management?
4. If a transaction takes place affecting accounts in both sales and purchase ledgers, what adjusting entries are required?
5. What are Mutual accounts? Closed accounts?
6. If a person or firm has an active account in both sales and purchase ledgers, how are settlement entries made?

7. What are stated accounts, current, active, passive, fixed, real, nominal, personal, impersonal, capital?

8. There are certain accounts that always show a debit balance and others always a credit balance, if any. Name six of them and tell which side would be larger, and why.

9. The debit balance of merchandise account is \$7,920.00, and the inventory of goods on hand, \$14,925.00. The expenses of the business amount to \$5,640.00. What is the gain or loss?

10. What is a continued trial balance? What is gained by its use?

11. When new accounts are opened during the year, where are they placed in the general ledger and in the trial balance?

12. When is the best time to have the fiscal (business) year end? Give reasons.

13. What is meant by equating or averaging an account? Does either party gain or lose by averaging? (See commercial arithmetic.)

14. Which form of ledger do you consider best adapted to retail accounts for a small grocery? For a general store?

15. The ledger shows that the proprietor has an investment account, a private account, and a loan account. What does each contain, and what disposition should be made of each at the end of the year?

16. Define money, currency, cash, cash items, accounts receivable, accounts payable, sundry debtors, sundry creditors.

17. What is the best way of handling petty accounts, that is, accounts which are only transient?

18. How may separate ledgers be kept without the use of controlling accounts?

19. What is a card ledger? Loose-sheet ledger? Loose-leaf ledger? Tabular ledger?

20. Explain the safeguard or daily balance ledger.

21. Explain the use of the retail bill and charge form of ledger.

22. My net selling price of an invoice, after allowing \$20 for selling expenses, is \$360. If I gained $12\frac{1}{2}$ per cent. on the cost, what per cent. gain did I make on the selling price? Answer 10.5 per cent. Show the complete analysis.

23. If a net amount of \$1200 is to be realized by discounting a ninety-day note at 6 per cent., what is the face of the note?

24. What is the object of placing diagonal rulings in ledger accounts and statements? Do they serve any other use than that of beauty?

25. A customer's note is discounted at the bank. What entries are necessary? Is an entry required at the time of payment?

26. What entry in case the note is renewed at maturity? In case it is part paid and new note given for the balance? In case it is dishonored without explanation?

27. Would you hold notes against customers, that are now overdue? What entry should be made? Is it advisable to have such notes renewed?

28. Is an endorser still responsible on an overdue note?
29. You discount your own ninety-day note at the bank for \$10,000. What entry? What entry when it is paid at maturity? What entry in case it is renewed at maturity?
30. Can you draw up a promissory note? Is the wording changed in case it is to draw interest? What special words are required in case it draws other than the legal rate?
31. Why should notes received from directors, officers and stockholders be kept separate from the notes of customers?
32. What entry, if any, would you make when indorsing a note for a friend? When you give an accommodation note?

EXAMINATION, LESSON 2.

Follow instructions for preparing and sending in answers as given in connection with lesson one. Use as much taste and care in arranging papers as in preparing answers.

Written answers to be sent in:—

1. Have you carefully studied the instructions contained in this book? Do you understand them? Can you answer all of the review questions?

2. Give the several steps required in closing the ledger of a medium sized retail store, from the time the trial balance is proven until the preparation of financial statements for the proprietor.

3. You have a General and a Private Ledger and their respective journals, besides ledgers for customers and creditors. The Private Ledger contains the proprietor's capital account and private account, his investments in securities, real estate holdings, income from investments, profit and loss account, and a general ledger controlling account. Use your own figures and show the journal entries necessary for the following:

- An additional purchase of real estate, half cash and half mortgage.
- The sale of part of the real estate for cash.
- For proprietor's drawings of cash and of merchandise.
- Income from investments.
- For disposition of net profit when closing the ledger.

4. Cain and Brown are equal partners. They wish to dissolve partnership and agree to divide their assets and liabilities between them. The ledger accounts stand as follows: Cain, Dr. \$1300, Cr. \$4500; Brown, Dr. \$1425, Cr. \$4500; Expense, Dr. \$1350, Cr. \$160; Mdse., Dr. \$23,400, Cr. \$29,950; Commission, Cr. \$2033.

The inventory of merchandise, which Brown takes, is \$4650; cash on hand, which Cain takes, \$1395; notes receivable, which Cain takes, \$3594; accounts receivable, which Brown takes, being allowed a discount of 16 per cent. for bad debts, \$2347; accounts payable, which Brown assumes, \$1985; store and lot which Cain takes, \$9450; notes payable outstanding, which Cain assumes, \$1133. Determine the amount that one must pay the other in cash, and make all adjusting entries on the firm's books. Show the capital account of each partner properly ruled up.

5. You began business January 1, 192- with the assets and liabilities shown below. Give the entries necessary for opening the books.

Statement Jan. 1, 192-

Assets		Liabilities	
Cash	\$5,511.11	Bank loan	\$12,500.00
Investments	25,655.26	Notes payable	64,312.62
Notes receivable	6,813.84	Accounts payable	11,467.51
Accounts receivable	35,706.91	Notes receivable discounted	542.83
Merchandise	19,724.36	Mortgage payable	5,000.00
Insurance prepaid	277.00	Special reserve	3,145.36
Office supplies	478.33		
Stable supplies	257.25		
Advertising	1,496.96	Total	96,968.32
Machinery	6,587.00		
Delivery equipment	4,423.38	Net Worth:	
Office fixtures	516.85	Investment account	18,000.00
Real Estate	9,396.85	Private account	1,876.78
Total	\$116,845.10		\$116,845.10

6. From the following particulars, arranged alphabetically, prepare a Trial Balance showing the accounts in correct order and totaled. Show the Merchandise Account, the Loss and Gain Account, and the proprietor's accounts as they should appear in the Ledger after closing the accounts, December 31, 192-

George Adams, Capital Account, Jan. 1,	\$22,500
George Adams, Private Account, Dec. 31,	4,725
S. W. Barnes, Capital Account, Jan. 1,	14,650
S. W. Barnes, Private Account, Dec. 31,	\$2,850
Advertising	391
Bad debts written off	367
Book debts receivable	6,600
Cash in hand and in Bank	426
Commissions to salesmen	1,141
Discounts on Purchases	496
Discounts to Customers	782
Freight Outwards	315
Freight inward	114
Fire insurance premium	484
Horse and Delivery maintenance	350
Interest and Bank Charges	296
Machinery and Fixtures	16,924
Notes payable	2,789
Notes Receivable	496
Office furniture	1,140
Purchases	33,897
Real Estate and Buildings	4,926
Royalties and Taxes	562
Rent	1,500
Rebates allowed to Customers	376

Power, Light, Heat, etc.	1,364
Sales	78,943
Stock, Jan. 1, 192-	17,810
Sundry Expenses	1,281
Trade Creditors	1,297
Traveling Expenses	629
Wages	20,929

Stock on hand Dec. 31, 192-, \$18,000.

Allow \$950 for the depreciation of Machinery and Fixtures.

Partners are entitled to credits for salaries as follows: Adams \$3,500 a year, and Barnes \$2,000 a year. Profits are divided equally.

Make the Journal entries necessary for closing the Ledger.

In submitting answers show the loss and gain account first.

SUGGESTIONS TO STUDENTS

In beginning the study of Accountancy you must keep in mind that it cannot be successfully accomplished in one or two years. The subject can be mastered only by faithful study, persistent work, observation and research. In this course we can only point the way, extend a helping hand, and suggest avenues for further investigation, knowing that the diligent student will not rest satisfied until the end is accomplished. While we have tried to give as much as possible in the lessons, you are aware that it is impossible to include everything pertaining to Accountancy. Volumes and volumes of matter have been written and published and yet the subject is not covered. The subject is broad and the field almost boundless, and yet our object is to cover it as completely as possible within these lessons. It might have been done better, but with the co-operation of conscientious students we have confidence of good results. Our aim is to provide a course of sufficient thoroughness to prepare candidates for C. P. A. examinations and for practice as public accountants.

In studying the lesson be systematic and do not skip from one section to another. Study a few pages at a time and try to master their contents. It is advisable, however, to read the entire book through once or twice in order to get a general idea as to its contents. After this is done more systematic study may be made, paragraph by paragraph, until the entire lesson is mastered. A systematic plan for daily study is desirable and you are advised to provide such a plan. Whenever we can be of assistance write us, but not until you have exhausted your own resources. Consult the dictionary freely, especially the complete editions. Detailed information and suggestions regarding studying and sending in work are given in a special pamphlet of "directions and suggestions to students." You are advised to consult them freely and to follow as closely as possible the plans set forth.

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Theory, principles and practice...

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you self-distrustful and self-conscious, you from getting credit for your full worth among your business or other associates. To know, but be unable to say or write what you know clearly and intelligently, is a great disadvantage, either from a business or a social standpoint.

Every time you meet a word in reading or conversation that you do not understand or cannot pronounce or spell, consult your dictionary. By doing this you will learn the meaning of words and how to pronounce and spell them. You will, in the course of a few years, add greatly to your knowledge and improve your pronunciation and orthography.

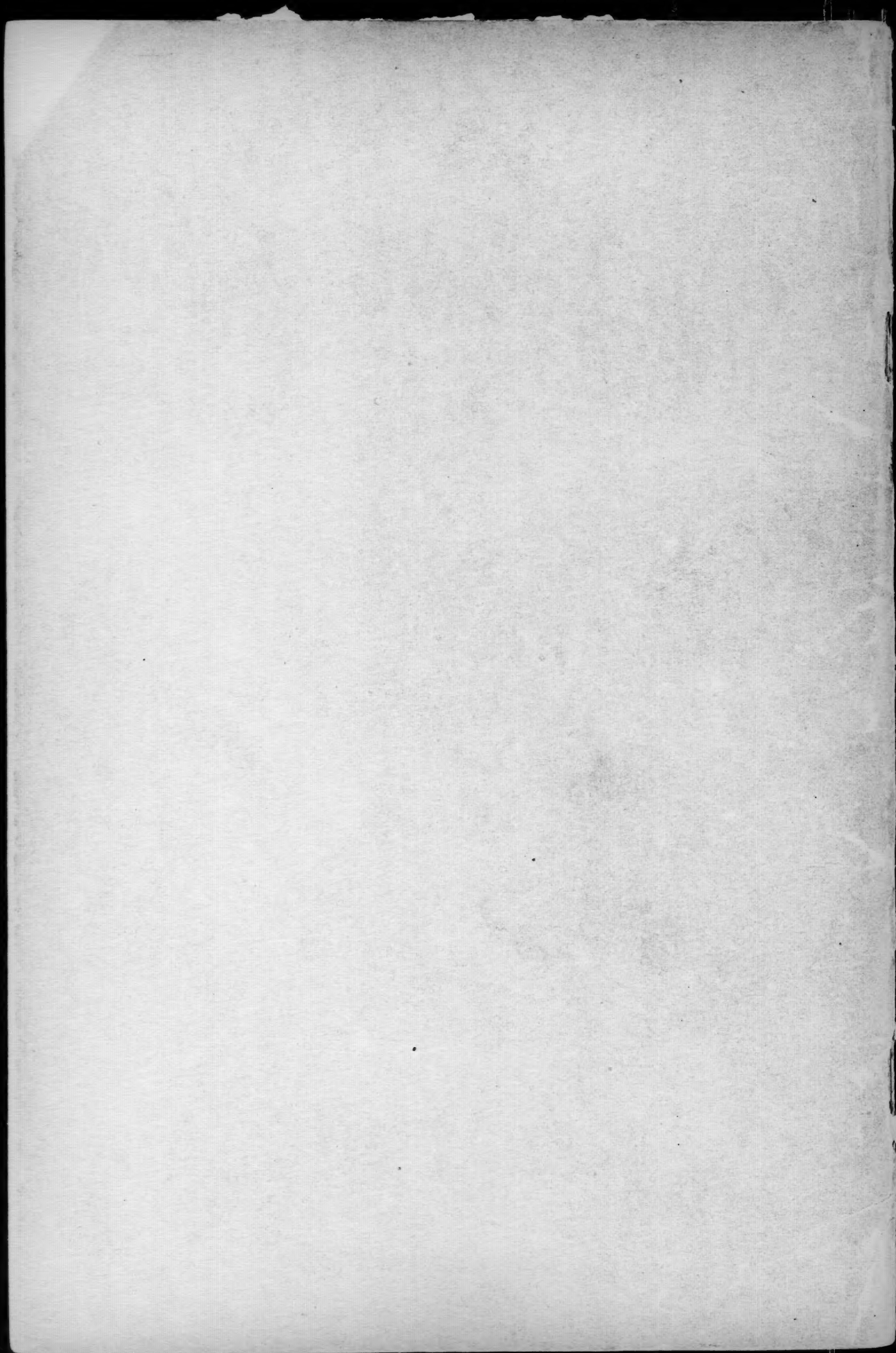
The greatest and most famous authors write with a dictionary at their elbow, and refer to it constantly. In no other book is so much information condensed. A good dictionary is a summary of the whole store of human intelligence.

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